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UNIT:1

Business Environment:

Business environment is the sum total of all external and internal factors that influence a business.

Characteristics of Business Environment:

(1) Totality of External Forces:

Business environment is the sum totals of all those factors/forces which are available outside the business and over which the business has no control. It is the group of many such forces that is why, its nature is of totality.

(2) Involves Specific and General Forces:

The forces present outside the business can be divided into two parts – specific and general.

(i) Specific:

These forces affect the firms of an industry separately, e.g., customers, suppliers, competitive firms, investors, etc.

(ii) General:

These forces affect all the firms of an industry equally, e.g., social, political, legal and technical situations.

(3) Interrelatedness:

The different factors of business environment are co-related. For example, let us suppose that there is a change in the import-export policy with the coming of a new government.

In this case, the coming of new government to power and change in the import-export policy are political and economic changes respectively. Thus, a change in one factor affects the other factor.

(4) Dynamic Nature:

As is clear that environment is a mixture of many factors and changes in some or the other factors continue to take place. Therefore, it is said that business environment is dynamic.

(5) Uncertainty:

Nothing can be said with any amount of certainty about the factors of the business environment because they continue to change quickly. The professional people who determine the business strategy take into consideration the likely changes beforehand.

But this is a risky job. For example, technical changes are very rapid. Nobody can anticipate the possibility of these swift technical changes. Anything can happen, anytime. The same is the situation of fashion.

(6) Complexity:

Environment comprises of many factors. All these factors are related to each other. Therefore, their individual effect on the business cannot be recognised. This is perhaps the reason which makes it difficult for the business to face them.

(7) Relativity:

Business environment is related to the local conditions and this is the reason as to why the business environment happens to be different in different countries and different even in the same country at different places.

Objectives of Business Environment:

Objectives of Business Environment:

1. Knowledge of Information

By studying the business environment, we can know the changes of business. This information is very useful for our business. Every businessman should aware current environment of business. With this, he can think the future of his business in such environment.

2. Basis of Decisions

One of main objective of the study of business environment that it can provide all the information which is needed for taking good decisions. Suppose, you completed your internal business environment study. With this study, you can take decision relating to purchase, sale, salary and price because you know your competitor, you know your suppliers and you know your customers.

3. Helpful in making of Policies

For making good business policies, we need to know and scan business through business environment.

4. Technological Planning

Today, technology is changing very fastly. 3 years ago, I have to search software for downloading business software but today I can use all business software online free of cost. This has become possible

due to changes of web technology. So, you have to study technological environment. With this, you can make better technological planning of your business.

5. Survive in the Business

Sometime industry may face recession. Production may be unlimited but sales will be limited. Only that business will survive who estimate all these situation in advance through business environment study.

Significance of BE:

(i) Help to understand internal Environment:

It is very much important for business enterprise to understand its internal environment, such as business policy, organisation structure etc. In such case an effective management information system will help to predict the business environmental changes.

(ii) Help to Understand Economic System:

The different kinds of economic systems influence the business in different ways. It is essential for a businessman and business firm to know about the role of capitalists, socialist and mixed economy.

(iii) Help to Understand Economic Policy:

Economic policy has its own importance in business environment and it has an important place in business. The business environment helps to understand government policies such as, export-import policy, price policy; monetary policy, foreign exchange policy, industrial policy etc. have much effect on business.

(iv) Help to Understand Market Conditions:

It is necessary for an enterprise to have the knowledge of market structure and changes taking place in it. The knowledge about increase and decrease in demand, supply, monopolistic practices, government participation in business etc., is necessary for an enterprise.

(v) Formulation of Strategy: Environmental analysis helps in identifying threats and opportunities in the Market. These can serve as the basic of formulation of a strategy to counter threats and capitalize or opportunities in the market.

(vi) Continuous Learning: Strategy formulation is a continuous process that involves keeping in touch with the external environment. Thus, managers keep a watch on the environmental changes and act on the basis of such information. Search of alternative and choice of a strategy to deal with the environment are parts of the learning process.

(vii) Image Building: If a firm is sensitive to the external environment, it will come out with new products and services to meet the requirements of the customers. This would the image or reputation of the firm in the eyes of the customers and the general public.

(viii) Identification of Opportunities to get First Mover Advantage: By keeping in touch with the changes in the external environment, an enterprise can identify opportunities and formulate strategies to capitalize on the opportunities at the earliest. For instance, if it is learnt that demand for mobike is going to increase, a mobike producing firm can take steps to increase production and introduce new models to lure new customers. By doing so, the firm will get the first mover advantage.

(ix) Identification of Threats or Warning Signals: Environmental scanning helps to identify possible threats in future. For instance, if an India firm finds that an MNC is entering the Indian market with new substitutes. This should work as a warning signal for the Indian firm. Based on this information, the Indian firm can improve the quality its products, reduce cost of production, engage in aggressive advertisement etc.

Coping with Environmental Changes:

1. **Buffering** : Stocking materials, preventive maintenance, employee training, building inventory etc.
2. **Leveling** :Eg. Retail firms facing seasonal fluctuations offer price cuts in order to spread sales evenly throughout the year.
3. **Anticipation** :Eg. A manufacturing firm tries to anticipate demand for its product before deciding production schedules.
4. **Ration:** Eg. When demand exceeds supply, manufacturers may ration supplies to dealers and distributors.
5. **Dominating** : Creative approach in which challenges and threats are converted into opportunities. eg. Advertsing, public relations etc.
6. **Changing and adapting** :eg. A company may change its product line to meet changes in customer preferences.

Types of Business Environment:

Internal Environment: It includes 5 Ms i.e. man, material, money, machinery and management, usually within the control of business. Business can make changes in these factors according to the change in the functioning of enterprise. Some examples of internal environmental factors are:

Management changes

Employee morale

Culture changes

Financial changes and/or issues

External Environment: Those factors which are beyond the control of business enterprise are included in external environment. These factors are: Government and Legal factors, Geo-Physical Factors, Political Factors, Socio-Cultural Factors, Demo-Graphical factors etc. **It is of two Types: 1. Micro Environment 2. Macro General Environment**

Types of External Environments:

The **micro environment** consists of the factors that directly impact the operation of a company.

The **macro environment** consists of general factors that a business typically has no control over. The success of the company depends on its ability to adapt.

The Micro Environment :

There are five factors that affect the micro environment: suppliers, customers, marketing intermediaries, financiers, and public perceptions.

- **Suppliers:** At your gas station, what happens if your suppliers don't show up with food, beverages, gas and other products? You'll have nothing to sell, which will have a direct impact on your operation.
- **Customers:** Customers are a requirement to run a business. If no one is buying, your gas station will have to close its doors.
- **Marketing Intermediaries:** Middlemen have a direct impact on your business operation. They could be your distributors, wholesalers, and other related people.
- **Financiers:** Typically, business owners take out a loan to get started, and the growth of the business depends upon their ability to obtain additional loans. Let's say you've decided to add a large kitchen to your gas station and offer fresh foods to your customers. This is a big investment. If the bank tells you no, it may directly impact the way you want your business to operate in the future.
- **Public Perceptions:** Does your gas station have a good reputation with the general public? You may have to work on this as you revitalize the business.
- **Competitors:**

The competitive environment consists of certain basic things which every firm has to take note of. No company, howsoever large it may be, enjoys monopoly.

In the original business world a company encounters various forms of competition. The most common competition which a company's product now faces is from differentiated products of other companies.

For example, in the Colour Television Market, Philips TV faces competition from other companies like Videocon, Onida, BPL and others. This type of competition is called brand competition. It is found in all durable product markets.

The consumer wants to purchase a two-wheeler, the next question in his mind is with gear or without gear, 100 cc or more than that, self starter or kick starter, etc. This type is otherwise known as 'Product form competition'.

Philip Kotler is of the opinion that the best way for a company to grasp the full range of its competition is to take the viewpoint of a buyer. What does a buyer think about that which eventually leads to purchasing something?

So, tracing of the consumer mind set will help to retain the market share for all the firms.

- **Workers and Their Union:**

From the point of view of the company, industrial relation is more important to improve the company, otherwise conflict between labour and management leads to Sick Unit.

The Macro Environment: There are six factors that affect the macro environment, and these include economic, sociocultural, political, legal, technical, and environmental considerations.

- **Economic Factors:** Economic factors include supply and demand, exchange and interest rates, taxes, and government spending. The way your company reacts to economic changes is key, and this is where creativity comes into play.
- **Social/socio cultural factors :** Social factors includes the society as a whole alongside its preferences and priorities like the buying and consumption pattern, beliefs of people their purchasing power, educational background etc.

Social factors are those that reflect the preferences, fads, and trends in society. Media companies are very sensitive to social trends as their business model is to produce content that reflects society's interests.

All these force the business to produce goods accordingly. So the social and cultural factors have affected the production pattern of business.

- **Political Factors:**

Business thrives where there is political stability. All business firms are affected greater or lesser level by government programmes at central, state or local bodies changes in such programmes are usually the result of shifts in the political weather arising from changes in the attitudes, preferences and objectives of voters and political leaders. Businessmen try to anticipate changes in government policies or in the political forces at the back of them so that they may be able to operate successfully. Political forces include regulatory requirements, legal concerns, and any impact from the current political climate of the country or region where the business operates.

- **Legal Factors:**

Legal systems play a significant role in business. Business law is the complex system of regulation that forms the legal environment of business. Knowledge of business law is necessary for many management decisions. The vast governmental network of laws and regulations, policy decisions, government bureaucracy, and the legislative processes have raised impact on Business decisions.

- **Technological Factors:**

Latest technologies helps in improving the marketability of the product plus makes it more consumer friendly. Therefore, it is important for a business to keep a pace with the changing technologies in order to survive in the long run.

- **Natural Environment Factors:** It includes natural resources, weather, climatic conditions, port facilities, topographical factors such as soil, sea, rivers, rainfall etc. Every business unit must look for these factors before choosing the location for their business.
- **Demographic Environment Factors :**It is a study of perspective of population i.e. its size, standard of living, growth rate, age-sex composition, family size, income level (upper level, middle level and lower level), education level etc. Every business unit must see these features of population and recognize their various need and produce accordingly.
- **International Environment Factors:**It is particularly important for industries directly depending on import or exports. The factors that affect the business are: Globalization, Liberalization, foreign business policies, cultural exchange
- **National Environment:**

The economic condition of a country, for example level of income, distribution of income and assets, economic resources, and stages of development are among the very important determinants of business strategies. Economic conditions are those forces in the economy, such as consumer buying power, consumer spending behaviour and the business cycle, that influence organisations abilities to compete and consumers willingness and ability to purchase goods and services.

In countries, where investment and income are steadily and rapidly rising, business prospects are generally bright and further investments are encouraged. There are a number of economists and businessman who feel that the developed countries are no longer worthwhile propositions for investment because there economics have reached more or less saturation levels in certain respects.

The low income may be the reason for very low demand for a product in a country. The sale of a product for which the demand is income elastic naturally increases with an increase in income. But the firm is unable to increase the purchasing power of the people to generate a higher demand for its product.

Hence it may have to reduce the price of the product to increase the sales. The reduction in the cost of production may have to be effected to facilitate price reduction. It may even be necessary to invent or develop a new low-cost product to suit the low income market.

Types of Business Environment /Factors affecting Business Environment –

There are various sources operating in the business environment, those forces which are external to the business and beyond their control are known external factors which operate in the external environment of the business. Forces which are internal to a business and controllable in nature are known as internal factors which operate in the internal environment of the business.

External Factors/ Uncontrollable Factors –

The external factors affecting a business may be divided into two –

Macro Factors – Factors which operate in the external environment of the business and have an indirect impact

Micro Factors – Factors which are present in the immediate environment of the business and have a direct impact

Competitive Structure of Industries:

The most influential analytical model for assessing the nature of competition in an industry is Michael Porter's five forces Model

According to Porter, the nature of competition in any industry is personified in the following five forces:

- Threat of new potential entrants
- Threat of substitute product/services
- Bargaining power of suppliers
- Bargaining power of buyers
- Rivalry among current competitors
- **Risk of entry by potential competitors:** Potential competitors refer to the firms which are not currently competing in the industry but have the potential to do so if given a choice. Entry of new players increases the industry capacity, begins a competition for market share and lowers the current costs. The threat of entry by potential competitors is partially a function of extent of barriers to entry. The various barriers to entry are-

Economies of scale

Brand loyalty

Government Regulation

Customer Switching Costs

Absolute Cost Advantage

Ease in distribution

Strong Capital base

- **Rivalry among current competitors:** Rivalry refers to the competitive struggle for market share between firms in an industry. Extreme rivalry among established firms poses a strong threat to profitability. The strength of rivalry among established firms within an industry is a function of following factors:

Extent of exit barriers

Amount of fixed cost

Competitive structure of industry

Presence of global customers

Absence of switching costs

Growth Rate of industry

Demand conditions

- **Bargaining Power of Buyers:** Buyers refer to the customers who finally consume the product or the firms who distribute the industry's product to the final consumers. Bargaining power of buyers refer to the potential of buyers to bargain down the prices charged by the firms in the industry or to increase the firms cost in the industry by demanding better quality and service of product. Strong buyers can extract profits out of an industry by lowering the prices and increasing the costs. They purchase in large quantities. They have full information about the product and the market. They emphasize upon quality products. They pose credible threat of backward integration. In this way, they are regarded as a threat.
- **Bargaining Power of Suppliers:** Suppliers refer to the firms that provide inputs to the industry. Bargaining power of the suppliers refer to the potential of the suppliers to increase the prices of inputs(labour, raw materials, services, etc) or the costs of industry in other ways. Strong suppliers can extract profits out of an industry by increasing costs of firms in the industry. Suppliers products have a few substitutes. Strong suppliers' products are unique. They have high switching cost. Their product is an important input to buyer's product. They pose credible threat of forward integration. Suppliers are not significant to strong suppliers. In this way, they are regarded as a threat.
- **Threat of Substitute products:** Substitute products refer to the products having ability of satisfying customers needs effectively. Substitutes pose a ceiling (upper limit) on the potential returns of an industry by putting a setting a limit on the price that firms can charge for their product in an industry. Lesser the number of close substitutes a product has, greater is the opportunity for the firms in industry to raise their product prices and earn greater profits (other things being equal).

The power of Porter's five forces varies from industry to industry. Whatever be the industry, these five forces influence the profitability as they affect the prices, the costs, and the capital investment essential for survival and competition in industry. This five forces model also help in making strategic decisions as it is used by the managers to determine industry's competitive structure.

Porter ignored, however, a sixth significant factor- complementaries. This term refers to the reliance that develops between the companies whose products work is in combination with each other. Strong complementors might have a strong positive effect on the industry. Also, the five forces model overlooks the role of innovation as well as the significance of individual firm differences. It presents a stagnant view of competition.

Strategic Management:

- Strategic Management is all about identification and description of the strategies that managers can carry so as to achieve better performance and a competitive advantage for their organization. An organization is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.
- Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm's performance.
- The manager must have a thorough knowledge and analysis of the general and competitive organizational environment so as to take right decisions. They should conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats), i.e., they should make best possible utilization of strengths, minimize the organizational weaknesses, make use of arising opportunities from the business environment and shouldn't ignore the threats.
- strategic management is nothing but planning for both predictable as well as unforeseen contingencies.
- It is a way in which strategists set the objectives and proceed about attaining them. It deals with making and implementing decisions about future direction of an organization. It helps us to identify the direction in which an organization is moving.
- The strategic management process means defining the organization's strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance.
- Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises its competitors; and fixes goals to meet all the present and future competitor's and then reassesses each strategy.

Strategic management process has following four steps:

- **Environmental Scanning-** Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.
- **Strategy Formulation-** Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.
- **Strategy Implementation-** Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and managing human resources.
- **Strategy Evaluation-** Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial / corrective actions.

Evaluation makes sure that the organizational strategy as well as its implementation meets the organizational objectives.

These components are steps that are carried, in chronological order, when creating a new strategic management plan.

Strategic Management also includes the following concepts:

BCG Matrix

SWOT Analysis

Porter's 5 Forces Model

Core Competence

QUEST

ETOP Analysis

Environmental Scanning

Making Business Policies

Establishing Business Ethics

Taking Strategic Decisions

Benefits of Strategic Management:

Financial Benefits

It has been shown in many studies that firms that engage in strategic management are more profitable and successful than those that do not have the benefit of strategic planning and strategic management.

When firms engage in forward looking planning and careful evaluation of their priorities, they have control over the future, which is necessary in the fast changing business landscape of the 21st century.

It has been estimated that more than 100,000 businesses fail in the US every year and most of these failures are to do with a lack of strategic focus and strategic direction. Further, high performing firms tend to make more informed decisions because they have considered both the short term and long-term consequences and hence, have oriented their strategies accordingly. In contrast, firms that do not engage themselves in meaningful strategic planning are often bogged down by internal problems and lack of focus that leads to failure.

Non-Financial Benefits

The section above discussed some of the tangible benefits of strategic management. Apart from these benefits, firms that engage in strategic management are more aware of the external threats, an improved understanding of competitor strengths and weaknesses and increased employee productivity.

They also have lesser resistance to change and a clear understanding of the link between performance and rewards.

The key aspect of strategic management is that the problem solving and problem preventing capabilities of the firms are enhanced through strategic management. Strategic management is essential as it helps firms to rationalize change and actualize change and communicate the need to change better to its employees. Finally, strategic management helps in bringing order and discipline to the activities of the firm in its both internal processes and external activities.

Environmental Analysis:

- It is a process to identify all the external and internal elements, which can affect the organization's performance.
- The analysis entails assessing the level of threat or opportunity the factors might present.
- This process is also known as "*environmental appraisal*" or "*environmental scanning*"

There are many strategic analysis tools that a firm can use, but some are more common. The most used detailed analysis of the environment is the PESTLE analysis. This is a bird's eye view of the business conduct. Managers and strategy builders use this analysis to find where their market currently. It also helps foresee where the organization will be in the future.

PESTLE analysis consists of various factors that affect the business environment. Each letter in the acronym signifies a set of factors. These factors can affect every industry directly or indirectly.

The letters in PESTLE, also called PESTEL, denote the following things:

- Political factors
- Economic factors
- Social factors
- Technological factors
- Legal factors
- Environmental factor

P FOR POLITICAL FACTORS

The political factors take the country's current political situation. It also reads the global political condition's effect on the country and business. When conducting this step, ask questions like "What kind of government leadership is impacting decisions of the firm?"

Some political factors that you can study are:

- Government policies

- Taxes laws and tariff
- Stability of government
- Entry mode regulations

E FOR ECONOMIC FACTORS

Economic factors involve all the determinants of the economy and its state. These are factors that can conclude the direction in which the economy might move. So, businesses analyze this factor based on the environment. It helps to set up strategies in line with changes.

I have listed some determinants you can assess to know how economic factors are affecting your business below:

- The inflation rate
- The interest rate
- Disposable income of buyers
- Credit accessibility
- Unemployment rates
- The monetary or fiscal policies
- The foreign exchange rate

S FOR SOCIAL FACTORS

Countries vary from each other. Every country has a distinctive mindset. These attitudes have an impact on the businesses. The social factors might ultimately affect the sales of products and services.

Some of the social factors you should study are:

- The cultural implications
- The gender and connected demographics
- The social lifestyles
- The domestic structures
- Educational levels
- Distribution of Wealth

T FOR TECHNOLOGICAL FACTORS

Technology is advancing continuously. The advancement is greatly influencing businesses. Performing environmental analysis on these factors will help you stay up to date with the changes. Technology alters every minute. This is why companies must stay connected all the time. Firms should integrate when needed. Technological factors will help you know how the consumers react to various trends.

Firms can use these factors for their benefit:

- New discoveries
- Rate of technological obsolescence
- Rate of technological advances
- Innovative technological platforms

L FOR LEGAL FACTORS

Legislative changes take place from time to time. Many of these changes affect the business environment. If a regulatory body sets up a regulation for industries, for example, that law would impact industries and business in that economy. So, businesses should also analyze the legal developments in respective environments.

I have mentioned some legal factors you need to be aware of:

- Product regulations
- Employment regulations
- Competitive regulations
- Patent infringements
- Health and safety regulations

E FOR ENVIRONMENTAL FACTORS

The location influences business trades. Changes in climatic changes can affect the trade. The consumer reactions to particular offering can also be an issue. This most often affects agri-businesses.

Some environmental factors you can study are:

- Geographical location
- The climate and weather
- Waste disposal laws
- Energy consumption regulation
- People's attitude towards the environment

Environmental Analysis Process:

Process of Env't. Analysis



Environmental Analysis Process:

- **Scanning:**

Environmental scanning involves the study of the general environment. It helps to identify the early signals of potential changes in the environment. It also detects changes that are already under way. It normally reveals ambiguous, incomplete, or unconnected data and information. The scanning system should be aligned with the organizational context. Hence, a scanning system designed for a volatile environment may be inappropriate for a stable environment. Many organizations even use special software and internet for environmental scanning.

- **Monitoring:**

Monitoring involves observation of environmental changes to see the trend. It detects meaning in different environmental events and trends. Scanning and monitoring are particularly important when a firm competes in a highly volatile environment. They help gather knowledge about markets and other components.

- **Forecasting:**

Scanning and monitoring are concerned with events and trends in the general environment at a point in time. Forecasting involves developing feasible projections of what might happen and how quickly. It is done on the basis of changes and trends. Forecasting is a challenging work.

Forecasting is concerned with the development of plausible directions of directions, scope, speed and intensity of environmental change to layout the evolutionary path of anticipatory change.

- **Assessment:** Assessment involves drawing up implications/ possible impacts. In assessment, the frame of reference moves from understanding the environment –of the focus of Scanning, Monitoring and Forecasting-to indentifying what that understanding of environment means for the organization.

In short, It involves drawing of possible impacts of the environmental changes on the organization.

Importance of Environmental Analysis:

1. Identification of strength:

Strength of the business firm means capacity of the firm to gain advantage over its competitors. Analysis of internal business environment helps to identify strength of the firm. After identifying the strength, the firm must try to consolidate or maximise its strength by further improvement in its existing plans, policies and resources.

2. Identification of weakness:

Weakness of the firm means limitations of the firm. Monitoring internal environment helps to identify not only the strength but also the weakness of the firm. A firm may be strong in certain areas but may be weak in some other areas. For further growth and expansion, the weakness should be identified so as to correct them as soon as possible.

3. Identification of opportunities:

Environmental analyses helps to identify the opportunities in the market. The firm should make every possible effort to grab the opportunities as and when they come.

4. Identification of threat:

Business is subject to threat from competitors and various factors. Environmental analyses help them to identify threat from the external environment. Early identification of threat is always beneficial as it helps to diffuse off some threat.

5. Optimum use of resources:

Proper environmental assessment helps to make optimum utilisation of scarce human, natural and capital resources. Systematic analyses of business environment helps the firm to reduce wastage and make optimum use of available resources, without understanding the internal and external environment resources cannot be used in an effective manner.

6. Survival and growth:

Systematic analyses of business environment help the firm to maximise their strength, minimise the weakness, grab the opportunities and diffuse threats. This enables the firm to survive and grow in the competitive business world.

7. To plan long-term business strategy:

A business organisation has short term and long-term objectives. Proper analyses of environmental factors help the business firm to frame plans and policies that could help in easy accomplishment of those organisational objectives. Without undertaking environmental scanning, the firm cannot develop a strategy for business success.

8. Environmental scanning aids decision-making:

Decision-making is a process of selecting the best alternative from among various available alternatives. An environmental analysis is an extremely important tool in understanding and decision making in all situation of the business. Success of the firm depends upon the precise decision making ability. Study of environmental analyses enables the firm to select the best option for the success and growth of the firm.

Limitations of Environmental Analysis:

1. Lack of Forewarning of Unforeseen Events

Environmental analysis does not predict the future. It does not eliminate uncertainty for the organization also. Business enterprises sometimes face events, which are unexpected during analysis. Environmental analysis, however, should aim at minimizing the frequency and extent of surprises that may attack a business organization.

2. No Assurance as to Organization Effectiveness

Environmental analysis does not ensure organizational effectiveness. It acts only as inputs in strategy development and testing. Sometimes, managers place uncritical faith in the data without thinking about the data's verifiability or accuracy. If this is the case, it may lead to misleading outcome.

3. Not fully Reliable

Normally, people place too much reliance on the information collected through environmental scanning. But in practice, it is not so. When there is overloading of information, one is likely to get confused.

4. Absence of Strategic Approach

Success of any organization lies in adventure and strategic risk-taking. Environmental analysis often makes an individual too cautious in his approach and he is likely to be left behind the events. So this analysis should be strategically done.

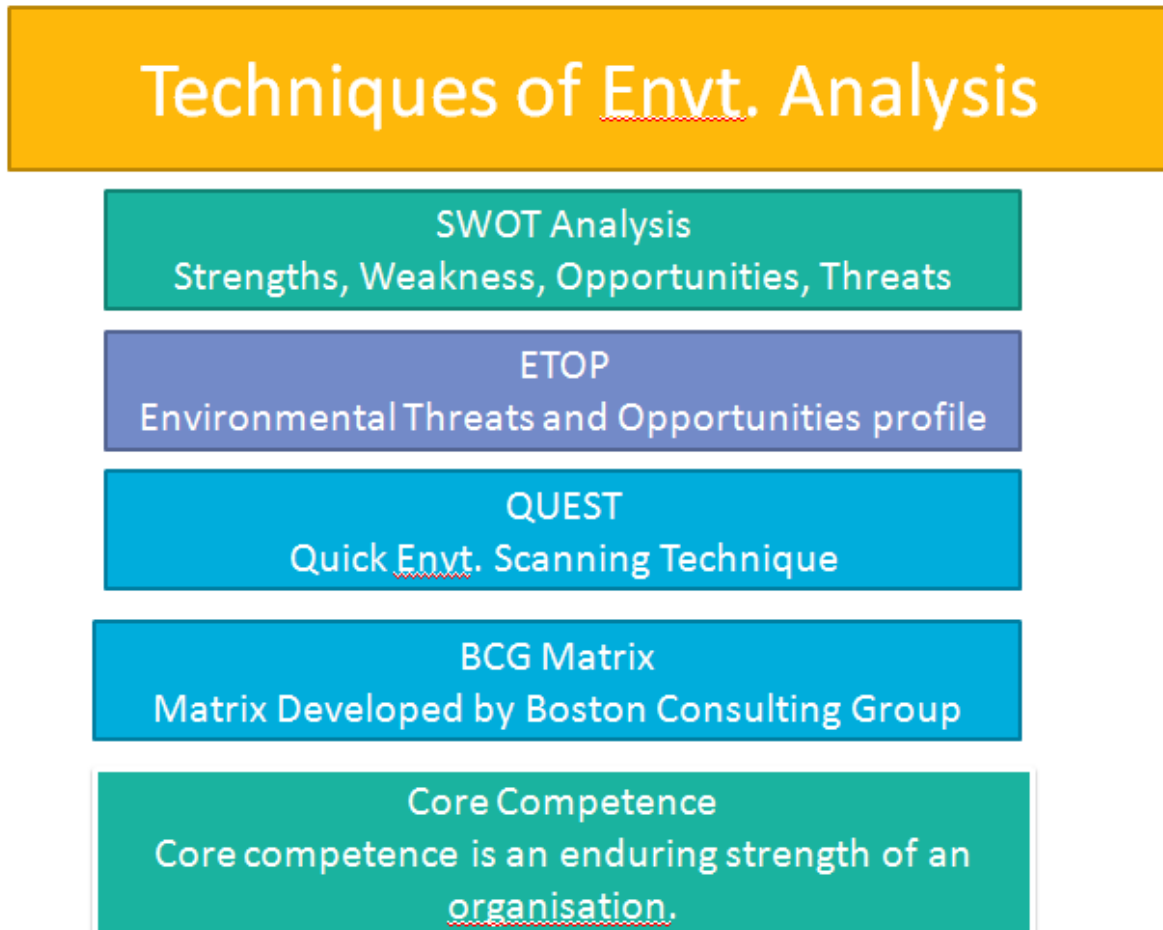
5. Time-consuming

6. Expensive

7. Overlooking important information due to excessive amounts of information gathered by organizations

8. Difficulty gathering and selecting anticipatory information

Techniques of Environmental Analysis:



TECHNIQUES OF ENVIRONMENTAL ANALYSIS:

SWOT Analysis:

a study undertaken by an organization to identify its internal strengths and weaknesses, as well as its external opportunities and threats.

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. By definition, Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. Also, by definition, Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control.

SWOT Analysis is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment. Its key purpose is to identify the strategies that will create a firm specific business model that will best align an organization's resources and capabilities to the requirements of the environment in which the firm operates.

An overview of the four factors (Strengths, Weaknesses, Opportunities and Threats) is given below-

- **Strengths** - Strengths are the qualities that enable us to accomplish the organization's mission. These are the basis on which continued success can be made and continued/sustained.

Strengths can be either tangible or intangible. These are what you are well-versed in or what you have expertise in, the traits and qualities your employees possess (individually and as a team) and the distinct features that give your organization its consistency.

Strengths are the beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty. Examples of organizational strengths are huge financial resources, broad product line, no debt, committed employees, etc.

- **Weaknesses** - Weaknesses are the qualities that prevent us from accomplishing our mission and achieving our full potential. These weaknesses deteriorate influences on the organizational success and growth. Weaknesses are the factors which do not meet the standards we feel they should meet.

Weaknesses in an organization may be depreciating machinery, insufficient research and development facilities, narrow product range, poor decision-making, etc. Weaknesses are controllable. They must be minimized and eliminated. For instance - to overcome obsolete machinery, new machinery can be purchased. Other examples of organizational weaknesses are huge debts, high employee turnover, complex decision making process, narrow product range, large wastage of raw materials, etc.

- **Opportunities** - Opportunities are presented by the environment within which our organization operates. These arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable. Organizations can gain competitive advantage by making use of opportunities.

Organization should be careful and recognize the opportunities and grasp them whenever they arise.

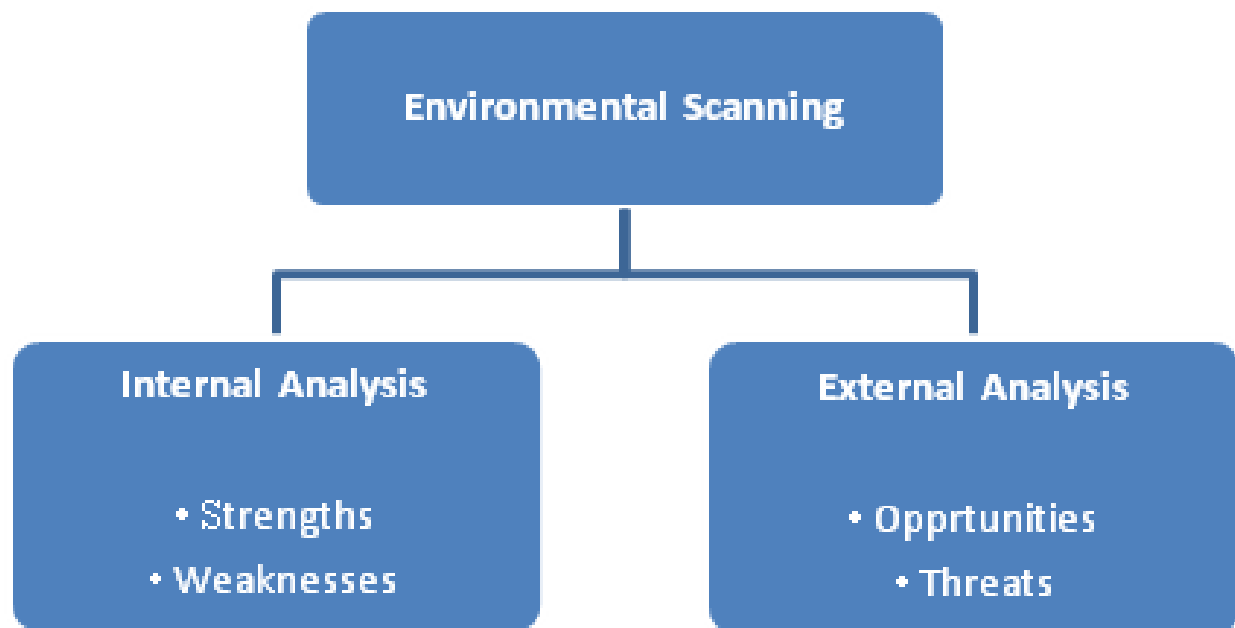
Selecting the targets that will best serve the clients while getting desired results is a difficult task. Opportunities may arise from market, competition, industry/government and technology. Increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter telecom sector and compete with existing firms for revenue.

- **Threats** - Threats arise when conditions in external environment jeopardize the reliability and profitability of the organization's business. They compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake. Examples of threats are - unrest among employees; ever changing technology; increasing competition leading to excess capacity, price wars and reducing industry profits; etc.

Advantages:

- It is a source of information for strategic planning.
- Builds organization's strengths.
- Reverse its weaknesses.
- Maximize its response to opportunities.
- Overcome organization's threats.
- It helps in identifying core competencies of the firm.
- It helps in setting of objectives for strategic planning.
- It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

SWOT Analysis:



Limitations:

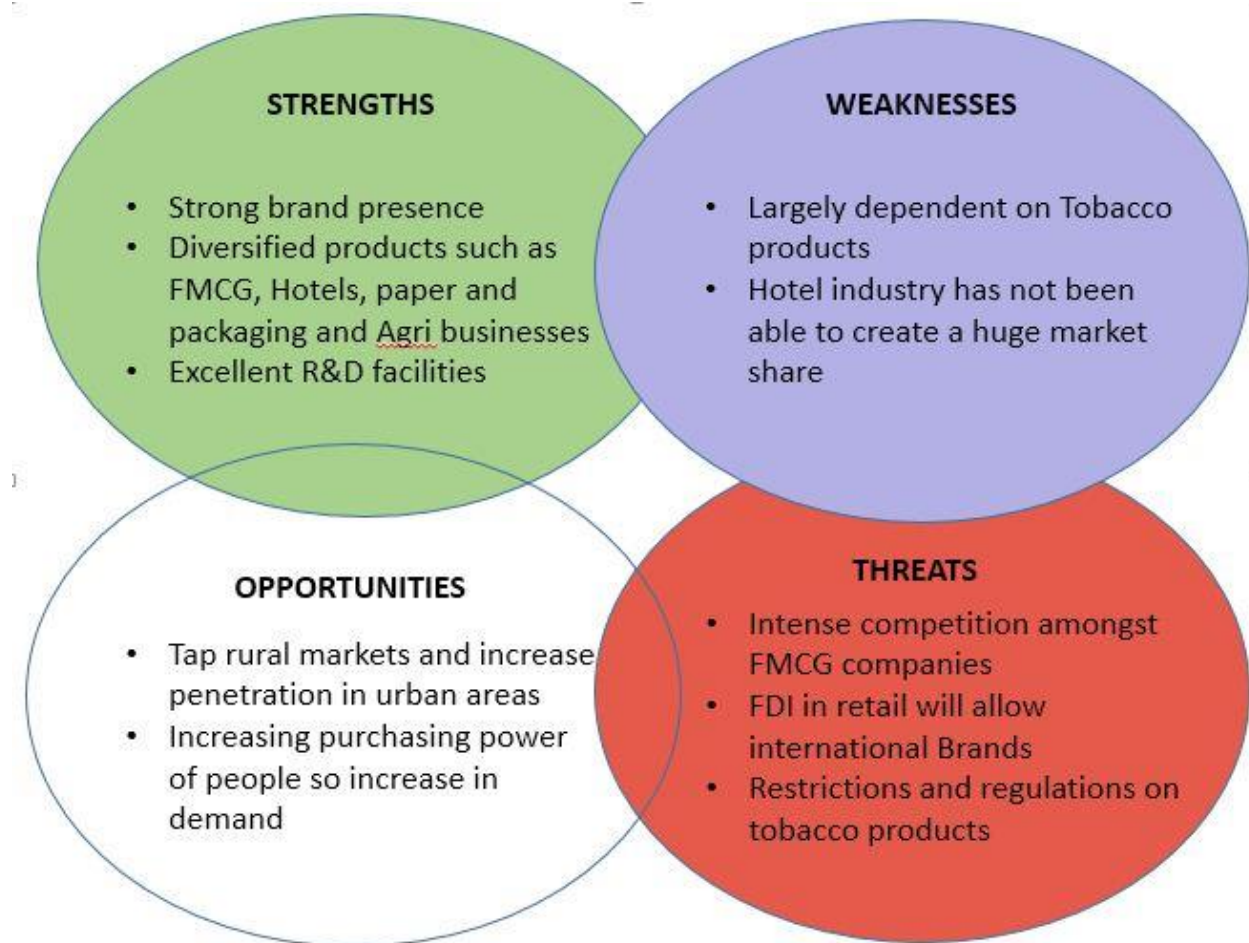
There are certain limitations of SWOT Analysis which are not in control of management. These include-

- Price increase;
- Inputs/raw materials;

- Government legislation;
- Economic environment;
- Searching a new market for the product which is not having overseas market due to import restrictions; etc.

Internal limitations may include-

- Insufficient research and development facilities;
- Faulty products due to poor quality control;
- Poor industrial relations;
- Lack of skilled and efficient labour; etc
- **Example of SWOT Analysis: SWOT Analysis of ITC**



ETOP Analysis:

Environmental Sectors	Nature of Impact	Impact of Each sector
Economic	↓	Economy slowdown; Increase in interest rates
Market	↓	Less growth in demand in domestic market
International	↓	A meager share of export; Threat of Chinese substitution
Political	→	No political impact
Regulatory	↓	Decrease in import duty; Environmental clearance hurdle;
Social	→	No Social Impact as mostly B2B
Supplier	→	No Apparent Impact
Technological	↓	Less advanced technology

ETOP Analysis:

ETOP analysis-

Environment threat and opportunity profile – It is a technique to structure the environment. It was developed by glueck.

The preparation of ETOP involves dividing the environment into different sectors and then analyzing the impact of each sector on the organization. A comprehensive ETOP requires sub dividing each environmental sector into subsectors and then the impact of each sector is described in the form of a statement. A summary of ETOP may only show the major factors for the sake of simplicity.

Environmental Sectors	Nature of Impact	Impact of each sector
Economic	↓	Economy slowdown, Increase in interest rates
Market	↓	Less growth in demand in domestic market
International	↓	A bigger share of exports, Threat of Chinese substitution
Political	→	No political impact
Regulatory	↓	Decrease in Import duty, Ongoing removal of trade barriers
Social	→	No Social Impact as recently OIB
Supplier	→	No Apparent Impact
Technological	↓	Less advanced technology

The strategic managers must keep focus on the following dimensions-

- Issue selection-there is a likelihood of arriving at incorrect priorities therefore focus must be on the issues which have been selected.
- Accuracy of ETOP- the data must be collected from good sources otherwise the entire process of environmental scanning might go to waste.
- Impact study- It should be conducted focusing on the various opportunities and threats and the critical issues selected. Efforts must be made to make the assessment more objective.
- Flexibility of operations-Due to uncertainty in business situations, a company will be benefited by devising a proactive and flexible strategies in their plans, structures, strategy etc. An optimum level must be reached.

ETOP Analysis:

A summary ETOP may only show the major factors for the sake of simplicity. The table 1 provides an example of an ETOP prepared for an established company, which is in the Two Wheeler industry.

The main business of the company is in Motor Bike manufacturing for the domestic and exports markets. This example relates to a hypothetical company but the illustration is realistic based n the current Indian business environment.

Table 1: Environmental Threat and Opportunity Profile (ETOP) for a Motor Bike company:

Environmental Sectors	Impact of each sector
Social (↑) fashionable,	Customer preference for motorbike, which are easy to ride and durable.
Political (→)	No significant factor.
Economic (↑) potential high.	Growing affluence among urban consumers; Exports
Regulatory (↑)	Two Wheeler industry a thrust area for exports.

Market (↑) motorbike	Industry growth rate is 10 to 12 percent per year, For growth rate is 40 percent, largely Unsaturated demand.
Supplier (↑)	Mostly ancillaries and associated companies supply parts and components, REP licenses for imported raw materials available.
Technological (↑)	Technological up gradation of industry in progress. Import of machinery under OGL list possible.

ETOP Analysis continued:

As shown in the table motorbike manufacturing is an attractive proposition due to the many opportunities operating in the environment. The company-can capitalize on the burgeoning demand by taking advantage of the various government policies and concessions. It can also take advantage of the high exports potential that already exists.

Since the company is an established manufacturer of motorbike, it has a favorable supplier as well as technological environment. But contrast the implications of this ETOP for a new manufacturer who is planning to enter this industry.

Though the market environment would still be favorable, much would depend on the extent to which the company is able to ensure the supply of raw materials and components, and have access to the latest technology and have the facilities to use it. The preparation of an ETOP provides a clear picture for organization to formulate strategies to take advantage of the opportunities and counter the threats in its environment.

The strategic managers should keep focus on the following dimensions,

1. Issue Selection:

Focus on issues, which have been selected, should not be missed since there is a likelihood of arriving at incorrect priorities. Some of the impotent issues may be those related to market share, competitive pricing, customer preferences, technological changes, economic policies, competitive trends, etc.

2. Accuracy of Data:

Data should be collected from good sources otherwise the entire process of environmental scanning may go waste. The relevance, importance, manageability, variability and low cost of data are some of the important factors, Which must be kept in focus.

3. Impact Studies:

Impact studies should be conducted focusing on the various opportunities and threats and the critical issues selected. It may include study of probable effects on the company's strengths and weaknesses, operating and remote environment, competitive position, accomplishment of mission and vision etc. Efforts should be taken to make assessments more objective wherever possible.

4. Flexibility in Operations:

There are number of uncertainties exist in a business situation and so a company can be greatly benefited by devising proactive and flexible strategies in their plans, structures, strategy etc. The optimum level of flexibility should be maintained.

QUEST Technique:

The Quick Environmental Scanning Technique, is a scanning procedure designed to assist executives and planners to keep side by side account of change and its implications for the organizational strategies and policies.

QUEST produces a broad and comprehensive analysis of the external environment.

QUEST stands for Quick Environmental Scanning Technique.

It is a four step process which uses scenario-writing for scanning the environment and identifying strategic options.

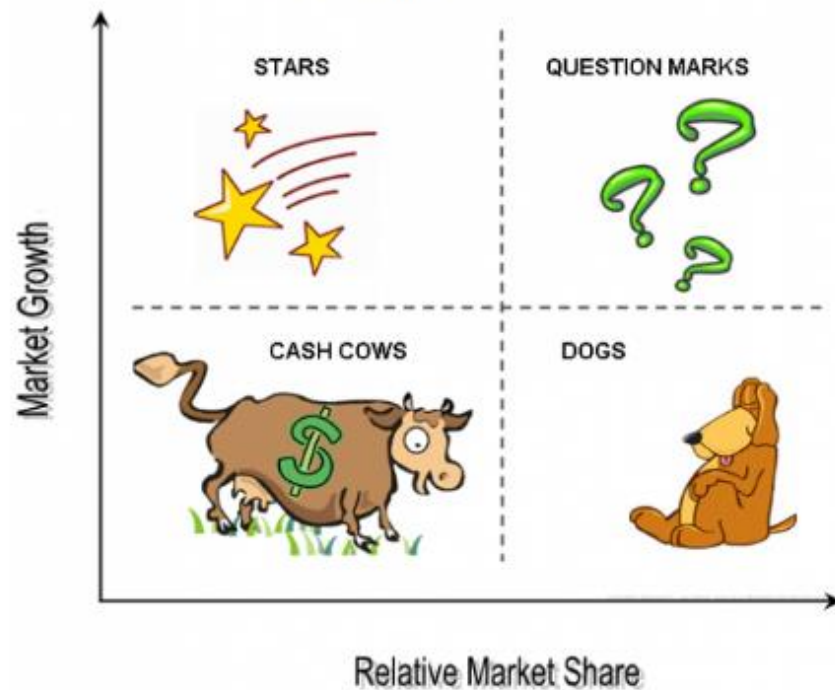
4 steps:

- Strategists make observation about the major events and trends in their industry.
- Then they speculate on a wide range of important issues that might effect the future of their organizations by scanning the environment broadly and comprehensively.
- The QUEST director prepares a report summarizing the major issues and their implications, and 3 to 5 scenarios incorporating the major themes of the discussion.
- The report and scenarios are reviewed by a group of strategists who identify feasible strategic options to deal with the evolving environment. The options are then ranked.
- **BCG Matrix:**

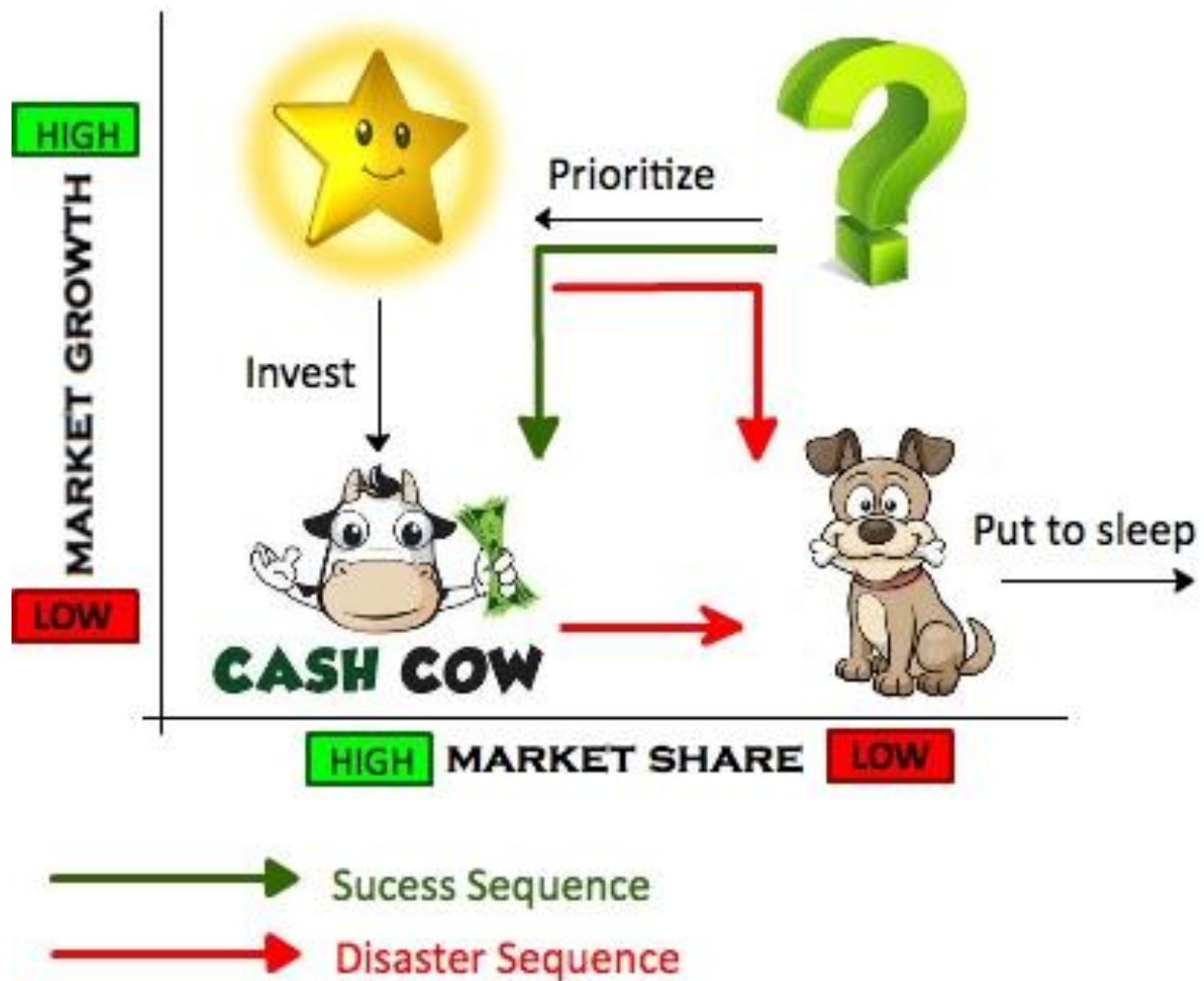
BCG Matrix

Boston consultancy group growth share Matrix commonly known as BCG Matrix is a famous portfolio analysis technique developed by Boston consultancy group in the 1970's. It was developed for managing portfolio of different business units. The BCG Matrix shows a relationship between products that are generating cash and products that are eating cash.

Large companies who want to be organized in Single Business Units(SBU) face a challenge of allocation resources among these units . The BCG Matrix shows various business units on a graph of market growth v/s market share relative to competitors. Resources are allocated to business units according to where they are situated on the graph.



BCG Matrix:



BCG Matrix continued:

BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate. The mid-point of relative market share is set at 1.0. If all the SBU's are in same industry, the average growth rate of the industry is used. While, if all the SBU's are located in different industries, then the mid-point is set at the growth rate for the economy.

Resources are allocated to the business units according to their situation on the grid. The four cells of this matrix have been called as stars, cash cows, question marks and dogs. Each of these cells represents a particular type of business.

- **Stars-** Stars represent business units having large market share in a fast growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead. Net cash flow is usually modest. SBU's located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.
- **Cash Cows-** Cash Cows represents business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for

investment in other business units. These SBU's are the corporation's key source of cash, and are specifically the core business. They are the base of an organization. These businesses usually follow stability strategies. When cash cows lose their appeal and move towards deterioration, then a retrenchment policy may be pursued.

- **Question Marks-** Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks it has dominant market share, then it can adopt expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, then question marks may become dogs, while if huge investment is made, then they have potential of becoming stars.
- **Dogs-** Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor's/rival firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated if there is fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

BCG Matrix continued:

Limitations of BCG Matrix

The BCG Matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG Matrix is not free from limitations, such as-

- BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
- Market is not clearly defined in this model.
- High market share does not always leads to high profits. There are high costs also involved with high market share.
- Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
- At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.
- This four-celled approach is considered as to be too simplistic.

BCG Matrix alternate explanation:

Four Cells of a BCG Matrix

(A) **Cash cows** – It is a business unit with large market share in a mature and slow growing industry. Cash cows require little investment and generate cash that can be used to invest in other business units. These are generally large and mature business units reaping the benefits of experience and customer loyalty.

(B) **Star** – It is a business unit that has a large market share in a fast growing industry. It may generate cash but due to rapid growing market it requires investment to maintain its needs. It is a high growth – high market share business unit. These business units are generally in the growth stage of its product life cycle and not self sufficient in terms of its financial needs.

(C) **Question mark?** – It is also called the problem child. It is a business unit which has a small market share in a high growth market. Such a business unit requires huge investment to grow market share but whether it will be a star or not is unknown.

(D) **Dogs** – These are business units with a small market share in a mature industry. A dog may not require substantial cash but it ties up capital that could be invested elsewhere. Such a business unit must be liquidated unless it has some special strategic purpose or prospects to gain market share in the future.

The BCG matrix provides a framework for allocating resources among different business units and allow one to compare many business units at a glance.

Criticism of the BCG Matrix

♦ It is criticised that it does not reflect the true nature of the business. The BCG Matrix considers only two dimensions High and Low for measurement and while a business may enjoy a high, medium or low market share/growth rate.

♦ It assumes that high market share always leads to high profits which is not true. High Costs are involved in business units with large market share which may lead to normal profits.

♦ There are many parameters to measure profitability other than growth rate and market share. The BCG Matrix ignores all other indicators of profitability.

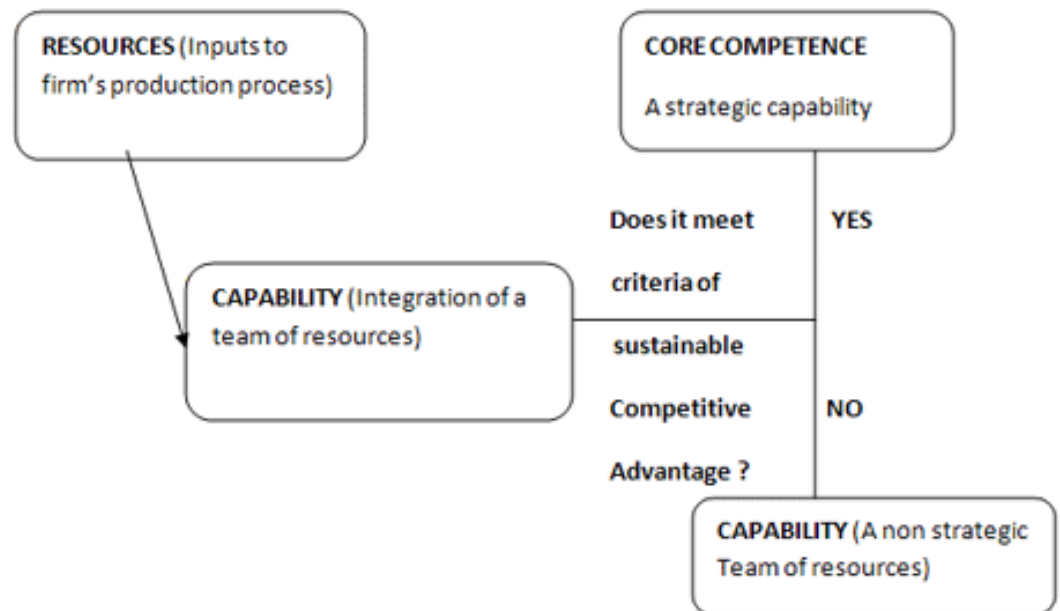
♦ The model does not clearly define the markets.

♦ Long term profitability of a business depends upon a variety of factors which may not be related to market share or growth. A business with low market share can also earn high profits without needing large amount of investment.

Core Competence:

- A **core competency** is defined as a harmonized combination of multiple resources and skills that distinguish a firm in the marketplace".
- The core competency theory is the theory of strategy that prescribes actions to be taken by firms to achieve competitive advantage in the marketplace. The concept of core competency states that firms must play to their strengths or those areas or functions in which they have competencies.
- In addition, the theory also defines what forms a core competency and this is to do with it being not easy for competitors to imitate, it can be reused across the markets that the firm caters to and the products it makes, and it must add value to the end user or the consumers who get benefit from it.
- If we take the examples from real world companies and evaluate their core competencies, we find that many firms have benefited from the application of this theory and that they have succeeded in attaining competitive advantage and sustainable strategic advantage.
- For instance, the core competencies of Walt Disney Corporation lie in its ability to animate and design its shows, the art of storytelling that has been perfected by the company, and the operation of its theme parks that is done in an efficient and productive manner. Hence, Walt Disney Corporation would be well advised to configure its strategy around these core competencies and build a business model that complements these competencies.
- The important aspect to be noted is that **core competencies provide the companies with a framework wherein they can identify their core strengths and strategize accordingly.**
- The organizational unique capabilities are mainly personified in the collective knowledge of people as well as the organizational system that influences the way the employees interact.
- As an organization grows, develops and adjusts to the new environment, so do its core competencies also adjust and change.
- Thus, core competencies are flexible and developing with time. They do not remain rigid and fixed.
- The organization can make maximum utilization of the given resources and relate them to new opportunities thrown by the environment.
- **Resources** and **capabilities** are the **building blocks** upon which an organization create and execute value-adding strategy so that an organization can earn reasonable returns and achieve strategic competitiveness.

Core Competence continued:



Resources are inputs to a firm in the production process. These can be human, financial, technological, physical or organizational. The more unique, valuable and firm specialized the resources are, the more possibly the firm will have core competency. Resources should be used to build on the strengths and remove the firm's weaknesses. Capabilities refer to organizational skills at integrating it's team of resources so that they can be used more efficiently and effectively. Organizational capabilities are generally a result of organizational system, processes and control mechanisms. These are intangible in nature. It might be that a firm has unique and valuable resources, but if it lacks the capability to utilize those resources productively and effectively, then the firm cannot create core competency. The organizational strategies may develop new resources and capabilities or it might make stronger the existing resources and capabilities, hence building the core competencies of the organization.

Core Competence continued:

Benefits:

- Core competencies help an organization to distinguish its products from its rivals as well as to reduce its costs than its competitors and thereby attain a competitive advantage.
- It helps in creating customer value. Also, core competencies help in creating and developing new goods and services.
- Core competencies decide the future of the organization.
- These decide the features and structure of global competitive organization. Core competencies give way to innovations.
- Using core competencies, new technologies can be developed.
- They ensure delivery of quality products and services to the clients.

Approaches to Environmental Analysis:

1. Systematic Approach:

Under this approach, information for environmental scanning is collected systematically. Information related to markets and customers, changes in legislation and regulations that have a direct impact on an organization's activities, government policy statements pertaining the organization's business and industry, etc, could be collected continuously. Updating such information is necessary not only for strategic management but also for operational activities.

2. Ad hoc Approach:

Using this approach, an organization may conduct special surveys and studies to deal with specific environmental issues from time to time. Such studies may be conducted, for instance, when organization has to undertake special projects, evaluate existing strategy or devise new strategies. Changes and unforeseen developments may be investigated with regard to their impact on the organization.

3. Processed-form Approach:

For adopting this approach, the organization uses information in a processed form available from different sources both inside and outside the organization. When an organization uses information supplied by government agencies or private institutions, it uses secondary sources of data and the information is available in processed form.

MANAGING DIVERSITY

Diversity:

Diversity means variety in characteristics and qualities that distinguish people from one another.

It denotes the diverse socio-economic conditions and different cultures prevailing in different parts of the world.

Cultural Diversity: the existence of a variety of cultural or ethnic groups within a society.

Multiculturalism: the presence of, or support for the presence of, several distinct cultural or ethnic groups within a society.

Diversity is the make up of a group of people who have different characteristics. These characteristics can differ in socioeconomic backgrounds, countries, races, religions and achievement levels. In public schools, we can see these things work and grow together. **Multiculturalism** is the difference between cultures.

Key cultural aspects, basic to business management are:-

- Attitude towards work and achievement
- Attitude towards future
- Pattern of decision making
- Attitude towards authority
- Responsibility towards family
- Expression of disagreement.
- **Hofstede's Dimensions:**
- Geert Hofstede's cultural dimensions theory, a theory that looks at unique aspects of cultures and rates them on a scale for comparison. Eg: Not trying to say dogs to humans are the same, but the way they interact is quite similar.
- **The Six Different Types of Hofstede's Dimensions**
- Geert Hofstede is a professor who researched how people from different countries and cultures interact based on six different categories of cultural dimensions. Those categories are:
- **Power Distance:** This dimension expresses the degree to which the less powerful members of a society accept and expect that power is distributed unequally.
- **Individualism vs. Collectivism:** This dimension focuses on the questions about whether people prefer a close knit network of people or prefer to be left alone to fend for themselves.
- **Masculinity vs. Femininity:** Masculinity represents a preference in society for achievement, heroism, assertiveness and material reward for success. Its opposite, femininity, stands for a preference for cooperation, modesty, caring for the weak and quality of life.
- **Uncertainty Avoidance:** This dimension expresses the degree to which the member of a society feels uncomfortable with uncertainty and ambiguity.
- **Long-term vs. Short-term Orientation:** Long-term orientation dimension can be interpreted as dealing with society's search for virtue. Societies with a short-term orientation generally have a strong concern with establishing the absolute truth.
- As we look at the different aspects and definitions of these dimensions, we can begin to see how a manager would have to deal with them and interpret them in an international setting. Just

looking at individualism versus collectivism shows us that there are societies, or people, that accept working alone and look at their existence in terms of being an individual rather than part of a group. However, a collectivist would look towards the group's success more so than their own personal satisfaction or accomplishments. Would it surprise you that the U.S. is high on the individual scale while Japan is more on the collectivist side? This means we Americans think more 'I' than 'we,' while Japan is exactly the other way around.

- Staying with this example, the U.S. has a low score for uncertainty avoidance. Basically, we are okay with ambiguity and not knowing everything for certain. On the other hand, Japan is very high on this scale, and they do not want uncertainty; they want facts.

Workforce Diversity:

Similarities and differences among employees in terms of age, cultural background, physical abilities and disabilities, race, religion, sex, and sexual orientation.

Reasons for Growing Workforce Diversity:

1. Change in focus of activities (*From manufacturing sector to service sector*)
2. Team work
3. Composition of labour market
4. Mergers, acquisitions and alliances.
5. Globalisation

Merits:

- ☐ Solving of conflicts into inventive solutions
 - ☐ Attract and retain more employees from different backgrounds.
 - ☐ Brings wide variety of talent, leading to successful business.
 - ☐ Increasing organisational productivity
 - ☐ Avoid damage to corporate reputation or costly lawsuits.
 - ☐ Makes organisations favourable for international environment.
 - ☐ The global market place demands workforce with language skills and cultural sensitivity to be successful in market.
 - ☐ It improves decision making ability of organisations as diverse employees offer fresh perspectives on organisational problems.
- **Increased adaptability**

Organizations employing a diverse workforce can supply a greater variety of solutions to problems in service, sourcing, and allocation of resources. Employees from diverse backgrounds bring individual

talents and experiences in suggesting ideas that are flexible in adapting to fluctuating markets and customer demands.

- **Broader service range**

A diverse collection of skills and experiences (e.g. languages, cultural understanding) allows a company to provide service to customers on a global basis.

- **Variety of viewpoints**

A diverse workforce that feels comfortable communicating varying points of view provides a larger pool of ideas and experiences. The organization can draw from that pool to meet business strategy needs and the needs of customers more effectively.

- **More effective execution**

Companies that encourage diversity in the workplace inspire all of their employees to perform to their highest ability. Company-wide strategies can then be executed; resulting in higher productivity, profit, and return on investment.

Limitations:

- ☐ Delay in decision making as more time is spent on discussing issues.
- ☐ WFD means lack of common perspective over a problem.
- ☐ Communications in diverse workforce becomes a problem.
- ☐ Makes decision-making complex, confusing and ambiguous.
- ☐ Difficulty in arriving at a consensus.
- **Resistance to change** - There are always employees who will refuse to accept the fact that the social and cultural makeup of their workplace is changing. The “we’ve always done it this way” mentality silences new ideas and inhibits progress.
- **Implementation of diversity in the workplace policies** - This can be the overriding challenge to all diversity advocates. Armed with the results of employee assessments and research data, they must build and implement a customized strategy to maximize the effects of diversity in the workplace for their particular organization.

Successful Management of Diversity in the Workplace - Diversity training alone is not sufficient for your organization’s diversity management plan. A strategy must be created and implemented to create a culture of diversity that permeates every department and function of the organization.

Managing Workforce Diversity:

Managing WFD Given by Prof. Taylor Cox



Managing Workforce Diversity:

Motivating A Diverse Workforce

Family-Friendly Benefits

- Employees do not leave their personal lives behind when they come to work.
- Organisations include benefits like child care, part time employment, parental leaves etc

Flexible Working Schedules

1. Compressed work week
2. Flexible work hours (flex time)
3. Job sharing
4. Work from home

Business:

Business is an economic activity as it is concerned with earning money and acquiring wealth.

“business means an enterprise engaged in production and distribution of goods for sale in the market or rendering of services for a price”

Characteristics:

The following are the ten important characteristics of a business:

1. Economic activity:

Business is an economic activity of production and distribution of goods and services. It provides employment opportunities in different sectors like banking, insurance, transport, industries, trade etc. it is an economic activity concerned with creation of utilities for the satisfaction of human wants.

It provides a source of income to the society. Business results into generation of employment opportunities thereby leading to growth of the economy. It brings about industrial and economic development of the country.

2. Buying and Selling:

The basic activity of any business is trading. The business involves buying of raw material, plants and machinery, stationary, property etc. On the other hand, it sells the finished products to the consumers, wholesaler, retailer etc. Business makes available various goods and services to the different sections of the society.

3. Continuous process:

Business is not a single time activity. It is a continuous process of production and distribution of goods and services. A single transaction of trade cannot be termed as a business. A business should be conducted regularly in order to grow and gain regular returns.

Business should continuously involve in research and developmental activities to gain competitive advantage. A continuous improvement strategy helps to increase profitability of the business firm.

4. Profit Motive:

Profit is an indicator of success and failure of business. It is the difference between income and expenses of the business. The primary goal of a business is usually to obtain the highest possible level of profit through the production and sale of goods and services. It is a return on investment. Profit acts as a driving force behind all business activities.

Profit is required for survival, growth and expansion of the business. It is clear that every business operates to earn profit. Business has many goals but profit making is the primary goal of every business. It is required to create economic growth.

5. Risk and Uncertainties:

Risk is defined as the effect of uncertainty arising on the objectives of the business. Risk is associated with every business. Business is exposed to two types of risk, Insurable and Non-insurable. Insurable risk is predictable.

Predictable factors are controllable to some extent, such as:

- a) Taxes
-) Change in the volume of expected sales
- c) Cost of supplies and equipment
- d) Overhead costs
- e) Salaries
- f) Cost of goods and services offered

Unpredictable factors include:

- a) Changes in trends and tastes of customers.
- b) Impact of the local economy on customer base.
- c) Any unexpected action taken by your competitors.

The calculation and management of the risk is vital to ensure the success of a business firm. Insurance and Risk management helps in minimizing the risk associated with the business.

6. Creative and Dynamic:

Modern business is creative and dynamic in nature. Business firm has to come out with creative ideas, approaches and concepts for production and distribution of goods and services. It means to bring things in fresh, new and inventive way.

One has to be innovative because the business operates under constantly changing economic, social and technological environment. Business should also come out with new products to satisfy the growing needs of the consumers.

7. Customer satisfaction:

The phase of business has changed from traditional concept to modern concept. Now a day, business adopts a consumer-oriented approach. Customer satisfaction is the ultimate aim of all economic activities.

Modern business believes in satisfying the customers by providing quality product at a reasonable price. It emphasize not only on profit but also on customer satisfaction. Consumers are satisfied only when they get real value for their purchase.

The purpose of the business is to create and retain the customers. The ability to identify and satisfy the customers is the prime ingredient for the business success.

8. Social Activity:

Business is a socio-economic activity. Both business and society are interdependent. Modern business runs in the area of social responsibility.

Business has some responsibility towards the society and in turn it needs the support of various social groups like investors, employees, customers, creditors etc. by making goods available to various sections of the society, business performs an important social function and meets social needs. Business needs support of different section of the society for its proper functioning.

9. Government control:

Business organisations are subject to government control. They have to follow certain rules and regulations enacted by the government. Government ensures that the business is conducted for social good by keeping effective supervision and control by enacting and amending laws and rules from time to time.

Some important acts framed by the government include:

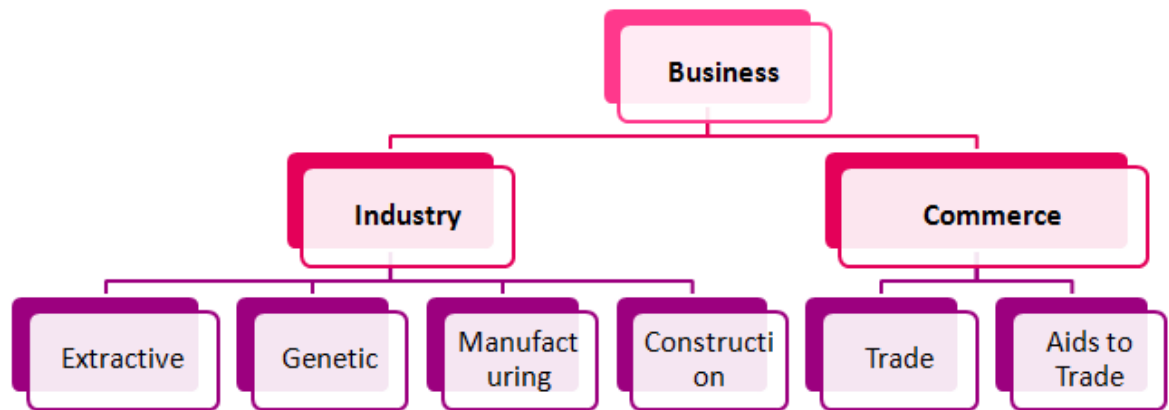
- i. The Competition Act, 2002
- ii. Foreign Exchange Management Act, 1999
- iii. The Environment Act, 1986
- iv. Indian Companies Act, 1956
- v. Consumer protection Act

10. Optimum utilisation of resources:

Business facilitates optimum utilisation of countries material and non-material resources and achieves economic progress. The scarce resources are brought to its fullest use for concentrating economic wealth and satisfying the needs and wants of the consumers.

Scope of Business:

Scope Of Business (Classification Of Business Activity)



Scope of Business:

There are two broad categories of business activities: one concerned with the production of goods and services (called industry), and the other with their exchange or distribution (called commerce)

(A) Industry:

Industry is that branch of business which is concerned with the production of goods and services by using the processes of extraction, conversion, processing, or fabrication of products.

The goods and services produced by an industry may be used either by final consumer (consumer goods) or by businessmen for further production (producers' goods). In this section, therefore, the discussion is divided into two parts: (i) types of industry, and (ii) goods and services produced by the industry.

Types of Industry:

The important types of industries are as follows:

- **Primary Industries:**

The production of these industries includes all kinds of work concerned with the extraction of the fruits of the earth or sea, that is, the extractive occupations. In this group, therefore, we find all types of farming or associated occupations — the many branches of agriculture, the rearing of animals; all types of mining and quarrying; forestry; fishing, etc. Primary industries, thus, employ the process of 'extraction' for production.

- **Manufacturing Industries:**

Etymologically, manufacturing means making something by hand. This original meaning has changed and now it mostly means using mechanical devices to create something useful. Manufacturing usually takes place in factories, plants, mills, or other places designed for this purpose, and involve division of work into specialised jobs performed in sequence by skilled groups of workers.

Manufacturing includes all the work done in an organisation using land, labour, and capital to make products from raw materials and semi-manufactured goods. Manufacturing industries, thus, employ the process of 'conversion' for production (like Gujarat Ambuja Cement).

- **Construction Industries:**

Construction, although resembling manufacturing in some ways, differs sufficiently to be considered a separate industry. Although it includes fabrication on a large scale, construction is not done in factories, but on the site where the structure will remain. Businessmen who operate in the construction industry are usually called contractors.

Construction includes the erection of new buildings and the alteration of old ones, as well as the building of bridges, roads, railways, streets, canals, docks, tunnels, sewers and sewage-disposal plants, water-supply systems. It does not include shipbuilding, locomotives, etc. Construction industries, thus, employ the process of 'fabrication' for production.

- **Extractive Industry:**

Any processes that involve the extraction of raw materials from the earth to be used by consumers. The extractive industry consists of any operations that remove metals, mineral and aggregates from the earth. Examples of extractive processes include oil and gas extraction, mining, dredging and quarrying.

- **Genetic Industry:**

Genetic Industry: The word 'genetic' means parentage or hereditary. Genetic industries are concerned mainly with producing - breeding or multiplying of certain species of plants or animals with the object of

earning profits from their sale. Examples of these types are nurseries, forestry, cattle breeding and commercial kennels. Animal husbandry is one type of Genetic Industry.

- **Tertiary or Service Industries:**

Tertiary industries or service industries are those industries which provide services to help business to move unhindered, e.g., transport, banking, communication, insurance, advertising etc.

Now-a-days, these services are called industry – like transport industry, banking industry, insurance industry, advertising industry etc. Point of comment Service industries are popularly considered as auxiliaries to trade; as they assist trade immensely.

(B) Commerce:

From an economic point of view, the business of producing a commodity is not complete until it has reached the consumer. For carrying these commodities to consumers certain services of an ancillary nature like transportation, banking, insurance, etc. are necessary. It is defined as the activity of buying and selling, especially on a large scale.

Commerce = Trade + Aids to Trade (or Auxiliary Services)

(a) Trade:

Trade refers to buying goods from the manufacturer and selling these to consumers. The persons who do trade are called traders. But for traders, it would have been a problem for the manufacturer to deal directly with consumers. In fact, the trader by taking the task of distribution in his hands allows the manufacturer to concentrate exclusively on manufacturing activities.

Trade is basically of two types:

- (i) Home trade or domestic trade or internal trade.
- (ii) Foreign trade or international trade or external trade.

Following is a brief comment on these two types of trades:

(i) Home Trade:

On the basis of scale of operations home trade may be – wholesale trade and retail trade. The wholesaler buys goods in large quantities from manufacturers and sells them in small quantities to retailers. The retailer ultimately sells goods bought from the wholesaler in very small quantities to the final consumer.

(ii) Foreign Trade:

Foreign trade refers to buying and selling of goods between two or more countries.

It is of the following types:

(I) Export Trade:

It implies sale of goods to foreign countries. For example, India exports tea to the U.K.

(II) Import Trade:

It implies purchase of goods from foreign countries. For example, India imports petrol from Iran.

(III) Entre-Port Trade:

It is also called re-export trade. It is done by a country having the benefit of conveniently situated ports. In entreport trade, a country imports large quantities of goods and re-exports them to neighbouring countries. London, Le Havre and Singapore have a considerable amount of entreport trade.

(b) Auxiliaries to Trade:

Auxiliaries to trade means those services which smoothen the flow of exchange between the trader and the consumer; by removing hindrances of place, contact, time, risk, finance and information.

Following is a brief account of various auxiliaries to trade:

(i) Transportation:

Producers and consumers are usually wide apart. Transportation creates 'place utility' and brings the goods from the place of producer to the place of the consumer. In fact, without transportation, trade would not have been possible. Transportation is the mother of all trade.

(ii) Communication:

Because of distance between producers/traders and consumers, another problem arises which is that of contact between the two-so that business deals could be finalized. Means of communication remove the hindrance of contact. Letters, telephone etc. are means of communication between parties.

However, modern modes of communication like telex, fax, internet, e-mail etc. have revolutionized the process of communication and have greatly aided trade to be done quickly and conveniently.

(iii) Warehousing:

There is usually a time-lag between production and consumption; because goods are produced in anticipation of demand. During this period, goods have to be stored; so that these are made available to consumers just right at the time of consumption. Warehousing (or storage) of goods removes this hindrance of time and creates time utility.

(iv) Insurance:

There are many types of risks in business e.g. risk of loss of goods by fire, damage to goods in transit, likely losses of destruction of business properties, risk of theft etc. Many business risks can be insured with insurance companies, on payment of a normal premium. In case of foreign trade, risks are much more than in case of home trade. Insurance removes the hindrance of risks and greatly facilitates home trade and foreign trade.

(v) Banking and Finance:

No business is possible without adequate finances. Finances are needed by all-producers, traders and consumers. Banking and finance companies greatly facilitate trade by providing timely finances to producers, traders and even consumers (to buy goods) and remove the hindrance of finances. Role of banking is still greater in case of foreign trade; where banks provide assurance to exporters towards payment of price by importers.

(vi) Advertising:

Advertising, in fact, removes the greatest hindrance of knowledge; and creates information or knowledge utility. In fact, without consumers having knowledge of useful goods and services available in the market for the satisfaction of their needs; no exchange of goods is possible between producers and consumers. Advertising brings the existence of goods/services to the knowledge of consumers; and greatly facilitates trade.

Interrelationship of Business Activities:

Industry, trade, and aids to trade are closely related to each other. As such, they affect and are, in turn, affected by each other. Each component of business has to depend upon the other for the realisation of its objectives. Take the example of industry and commerce. Industry is concerned with the production of goods and services, and commerce helps in the distribution of these products. Thus, both are interdependent.

Apart from providing the service of distribution to industry, commerce also helps industry in taking decisions on important matters like what to produce, when to produce, and for whom to produce.

Commerce is able to provide this service to industry because of its understanding of the market situation, which it gets through 'marketing research'. Trade, industry, and commerce are also closely related to each other.

Trade, being concerned with the buying and selling of goods, provides support to industry and maintains a smooth flow of commerce. It is the nucleus of commerce as all business activities revolve around transfer or exchange. It provides the solid foundation upon which the superstructure of commerce has been raised.

Industry, trade and commerce are all branches of business and are highly interrelated or interconnected. In fact, these three are so closely related that one cannot exist without the other i.e. neither industry has any meaning without trade and commerce; nor commerce and trade have any meaning without industry.

Industry produces goods which are distributed by commerce with the aid of trade and auxiliaries to trade (like transport, banking, insurance, advertising etc.). In the absence of commerce and trade, the industry would be required to distribute its own goods among consumers something which would not allow the industrialist either to concentrate on production or on distribution, in a specialized manner.

Similarly, in the absence of industry (i.e. production), commerce and trade will have no function to perform i.e. commerce and trade have no existence of their own, in an independent capacity. Again,

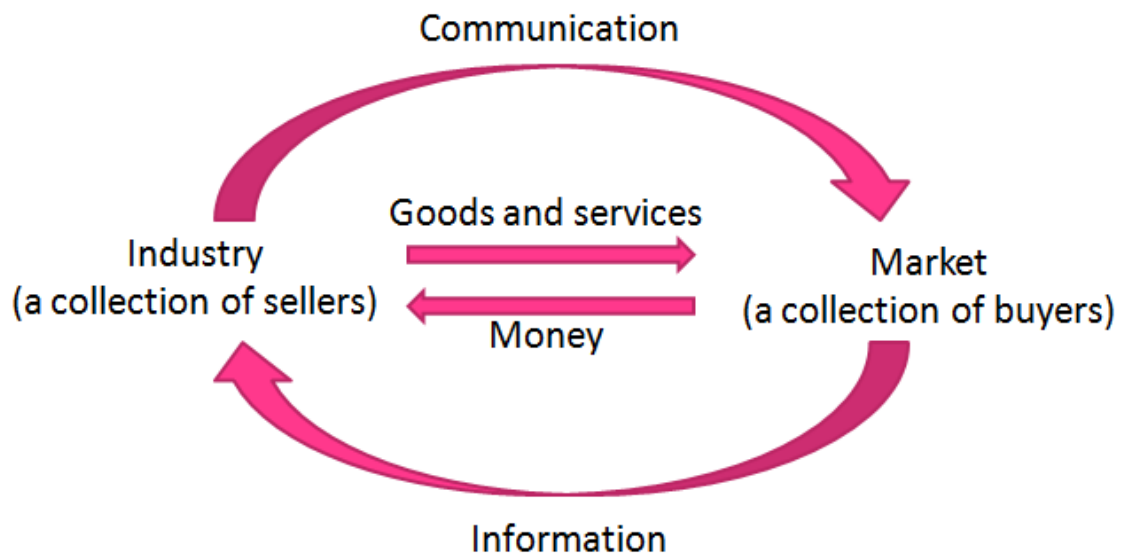
industry too cannot survive without commerce and trade. In fact, it is through trade that raw-materials and other inputs for production are made available to industry.

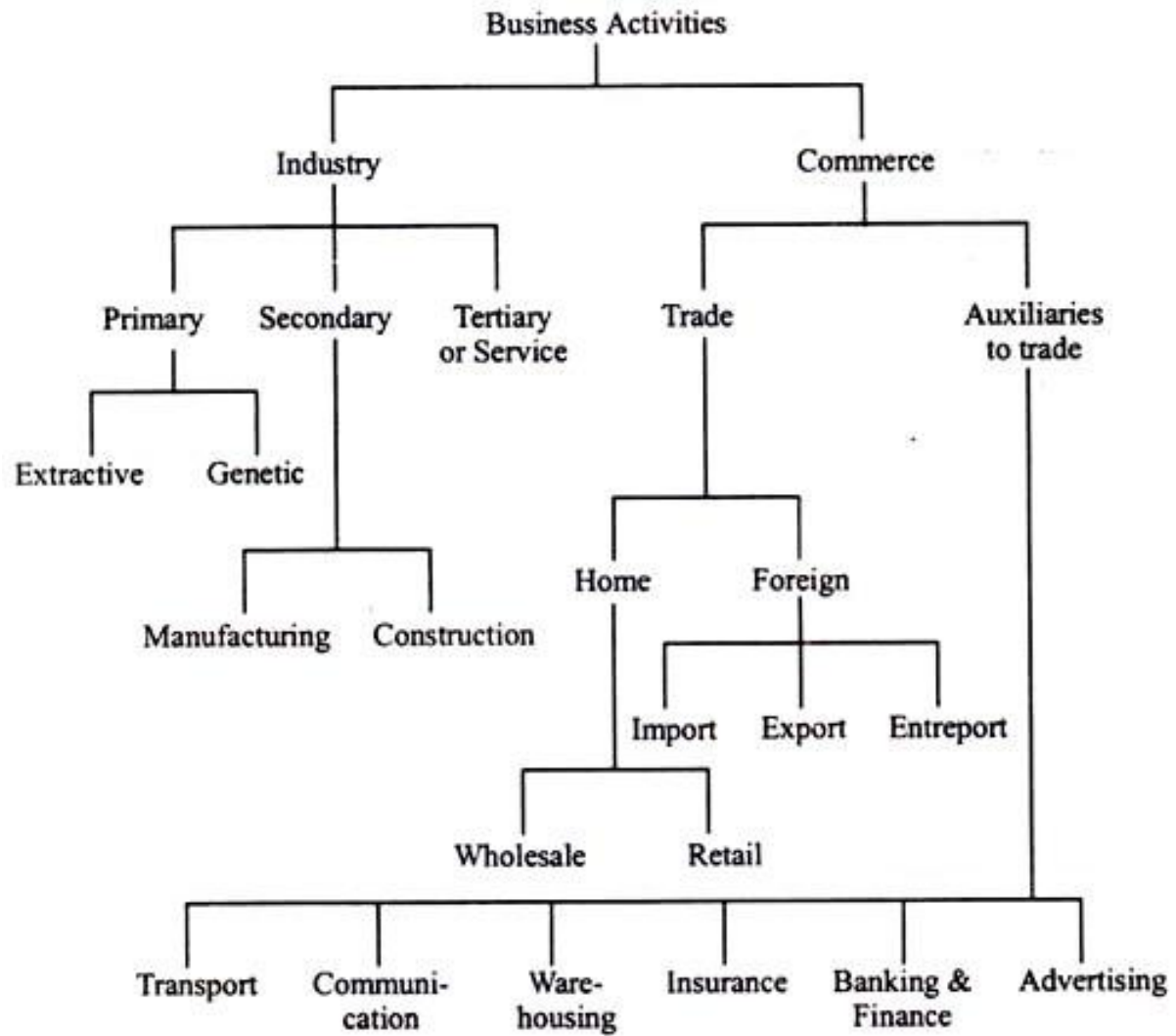
Commercial services like banking, transportation, warehousing etc. immensely aid industry in maintaining a continuous and smooth flow of productive activities. In short, it could be said that industry aids trade and commerce; and is also aided substantially by the latter.



Industry, trade and commerce supporting one another.

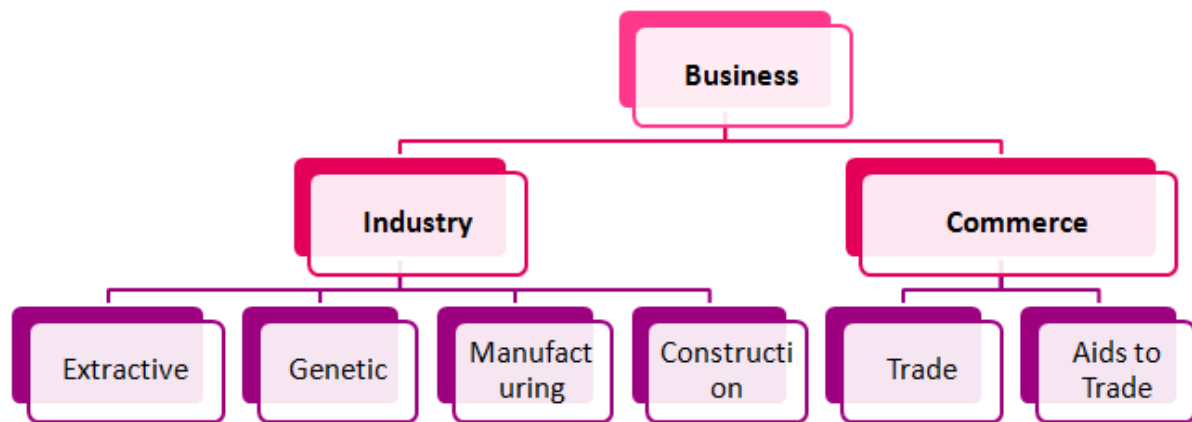
Relationship Between Industry And Market





Scope Of Business

(Classification Of Business Activity)



Hindrances	Removed by
1. of place	Transportation
2. of contact	Communication
3. of time	Warehousing
4. of risk	Insurance
5. of finance	Banking and finance
6. of information	Advertising

Basis	Industry	Commerce	Trade
Meaning	Extraction, reproduction, conversion, processing and construction of useful products.	Activities involving distribution of goods and services.	Purchase and sale of goods and services.
Scope	Consists of all activities involving conversion of materials and semi-finished products into finished products.	Comprises trade and auxiliaries to trade.	Comprises exchange of goods and services.
Capital	Generally large amount of capital is required.	Need for capital is comparatively less.	Capital is needed to maintain stock and grant credit.
Risk	Risk involved is usually high.	Relatively less risk is involved.	Relatively less risk is involved.
Side	It represents supply side of goods and services.	It represents demand side of goods and services	It represents both supply and demand.

UNIT 2

Economic Environment:

The totality of economic factors, such as employment, income, inflation, interest rates, productivity, and wealth and the economy that influence the buying behavior of consumers and institutions and impact the business.

- ☐ Those Economic factors which have their affect on the working of the business is known as economic environment.
- ☐ It includes system, policies and nature of an economy, trade cycles, economic resources, level of income, distribution of income and wealth etc.
- ☐ The economic environment represents the economic conditions in the country where the organization operates.
- ☐ Economic environment is very dynamic and complex in nature. It does not remain the same. It keeps on changing from time to time with the changes in an economy like change in Govt. policies, political situations.

Economic means "pertaining to the production and use of income."

Economic Activities - Money earning & Spending

Environment: the surroundings or conditions in which a person, animal, or plant lives or operates.

Features/Nature of Economic Environment:

- Directly Related with Economic Activities
- Impact of Non Economic Factors
- Impact of Basic Infrastructure
- Impact of Ideology of the People
- Availability of Capital
- Economic Disparities
- Directives of the Government
- Economic Planning
- Ideology of the Government & Economic System

- Public Morality (meaning = **Public morality** refers to **moral** and ethical standards enforced in a society, by law or police work or social pressure, and applied to **public** life, to the content of the media, and to conduct in **public** places.)

Objectives of Economic Environment:

- Proper Functioning of an Economy
- Knowledge of New Opportunities & Resources
- Study of Environmental Factors
- Removal of Obstacles & Challenges
- Changeable Use of Environment
- Optimum Use of Environment
- Minimizing ill effects

Classifications of Economic Environment:

- **Microeconomic environment:** It includes the economic environment of a particular industry, firm or household and is primarily concerned with price determination of individual factors. The main consideration from a microeconomic perspective is the efficient allocation of resources. This is necessary to maximize total output.
- **Macroeconomic environment:** It includes all the economic factors in totality. The main consideration here is the determination of the levels of income and employment in the economy.

Factors affecting Economic Environment:

The economic environment of a nation as well as the world is impacted by:

- **Inflation and deflation:** Inflationary and deflationary pressures alter the purchasing power of money. This has a direct impact on consumer spending, business investment, employment rates, government programs and tax policies. (Deflation meaning =Deflation is a contraction in the supply of circulated money within an economy, and therefore the opposite of inflation and therefore reduction of the general level of prices in an economy.)
- **Interest rates:** Interest rates determine the cost of borrowing and the flow of money towards businesses.
- **Exchange rates:** This impacts the price of imports, the profits made by exporters and investors and employment levels (also through the impact on the tourism industry).
- **Monetary and fiscal policy:** This helps in attaining full employment, price stability and economic growth.

- The economic environment is also influenced by various political, social and technological factors. These include a change in government and the development of new technology and business tools.(learn about these from previous slides)

<http://www.yourarticlelibrary.com/business-environment/5-important-dimensions-of-business-environment/895/>

Components and Elements of Economic Environment(can be included in nature of economic environment too)

- **Income and wealth:** Income in an economy is measured by GDP, GNP and per capita income. High values of these factors show a progressive economic environment.
- **Employment levels:** High employment represents a positive picture of the economy. However, there are many forms of unemployment, including partial employment and disguised unemployment.
- **Productivity:** This is the output generated from a given amount of inputs. High levels of productivity support the economic environment.

Economic Conditions : **Economic conditions** refer to the state of the **economy** in a country or region. They change over time in line with the **economic** and business cycles, as an **economy** goes through expansion and contraction.

- Economic Policies of a business unit are largely affected by the economic conditions of an economy. Any improvement in the economic conditions such as standard of living, purchasing power of public, demand and supply, distribution of income etc. largely affects the size of the market.
- Business cycle is another economic condition that is very important for a business unit. Business Cycle has 5 different stages:-

- (i) Prosperity,
- (ii) Boom,
- (iii) Decline,
- (iv) Depression,
- (v) Recovery.

Following are mainly included in Economic Conditions of a country:-

- I. Stages of Business Cycle
- II. National Income, Per Capita Income and Distribution of Income
- III. Rate of Capital Formation
- IV. Demand and Supply Trends
- V. Inflation Rate in the Economy

- VI. Industrial Growth Rate, Exports Growth Rate
- VII. Interest Rate prevailing in the Economy
- VIII. Trends in Industrial Sickness
- IX. Efficiency of Public and Private Sectors
- X. Growth of Primary and Secondary Capital Markets
- XI. Size of Market

Economic conditions of a nation can be of any one of the following type:-

- **Capitalism:-** The economic system in which business units or factors of production are privately owned and governed is called Capitalism. The profit earning is the sole aim of the business units. Government of that country does not interfere in the economic activities of the country. It is also known as free market economy. All the decisions relating to the economic activities are privately taken. Examples of Capitalistic Economy:- England, Japan, America etc.
- **Socialism:-** Under socialism economic system, all the economic activities of the country are controlled and regulated by the Government in the interest of the public. The first country to adopt this concept was Soviet Russia. The two main forms of Socialism are: -
 - (a) Democratic Socialism:-** All the economic activities are controlled and regulated by the government but the people have the freedom of choice of occupation and consumption.
 - (b) Totalitarian Socialism:-** This form is also known as Communism. Under this, people are obliged to work under the directions of Government.
- **Mixed Economy:-** The economic system in which both public and private sectors co-exist is known as Mixed Economy. Some factors of production are privately owned and some are owned by Government. There exists freedom of choice of occupation and consumption. Both private and public sectors play key roles in the development of the country.
- **Economic System :** An **economic system** is a **system** of production, resource allocation, and distribution of goods and services within a society or a given geographic area. Different countries of a world have different economic systems and the prevailing economic system in a country affect the business units to a large extent. They are used to control the five factors of production, including: labor, capital, entrepreneurs, physical resources and information resources. In everyday terms, these production factors involve the employees and money a company has at its disposal, as well as access to **entrepreneurs**, the people who want to run companies or start their own businesses. The physical materials and resources needed to run a business, along with the data and knowledge companies use to be successful, are also factors in production. Different economic systems view the use of these factors in different ways.

It includes:

- **Planned Economy:** A **planned economy** is one in which the government decides how the factors of production are used. For example, the government determines who owns the businesses, who buys and sells to whom, and who makes the ultimate decisions regarding businesses, including who works for them.

- **Market Economy:** A **market economy** is the opposite of a planned economy. In a market economy, people decide on their own as to how to utilize factors of production.

- **Economic Policies :**

Government frames economic policies. Economic Policies affects the different business units in different ways. It may or may not have favorable effect on a business unit. The Government may grant subsidies to one business or decrease the rates of excise or custom duty or the government may increase the rates of custom duty and excise duty, tax rates for another business. All the business enterprises frame their policies keeping in view the prevailing economic policies. Important economic policies of a country are as follows:-

1. **Monetary Policy:-** The policy formulated by the central bank of a country to control the supply and the cost of money (rate of interest), in order to attain some specified objectives is known as Monetary Policy.

2. **Fiscal Policy:-** It may be termed as budgetary policy. It is related with the income and expenditure of a country. Fiscal Policy works as an instrument in economic and social growth of a country. It is framed by the government of a country and it deals with taxation, government expenditure, borrowings, deficit financing and management of public debts in an economy.

Foreign Trade Policy:- It also affects the different business units differently. E.g. if restrictive import policy has been adopted by the government then it will prevent the domestic business units from foreign competition and if the liberal import policy has been adopted by the government then it will affect the domestic products in other way.

4. **Foreign Investment Policy:-** The policy related to the investment by the foreigners in a country is known as Foreign Investment Policy. If the government has adopted liberal investment policy then it will lead to more inflow of foreign capital in the country which ultimately results in more industrialization and growth in the country.

5. **Industrial Policy:-** Industrial policy of a country promotes and regulates the industrialization in the country. It is framed by government. The government from time to time issues principals and guidelines under the industrial policy of the country.

- **International Economic Environment:**

The role of international economic environment is increasing day by day. If any business enterprise is involved in foreign trade, then it is influenced by not only its own country economic environment but also the economic environment of the country from/to which it is importing or exporting goods. There are various rules and guidelines for these trades which are issued by many organizations like World Bank, WTO, United Nations etc.

International/The global environment refers to those factors which are relevant to business such as:

WTO principles and agreements

International conventions

Treaties, agreements, declarations, protocols, economic

Sentiments in other countries, hike in crude oil prices etc.

- **Economic Legislations:** (meaning= laws considered collectively OR the process of making or enacting laws.)

Besides the above policies, Governments of different countries frame various legislations which regulates and control the business.

Structure of the economy:

Economic structure is a term that describes the changing balance of output, trade, incomes and employment drawn from different economic sectors – ranging from primary (farming, fishing, mining etc) to secondary (manufacturing and construction industries) to tertiary and quaternary sectors (tourism, banking, software industries.)

It is categorised in 4 phases:

In modern economies, phase are somewhat differently expressed by four degrees of activity:

- **Primary stage:** Involves the extraction and production of raw materials, such as corn, coal, wood and iron. (A coal miner and a fisherman would be workers in the primary degree)
- **Secondary stage:** Involves the transformation of raw or intermediate materials into goods e.g. manufacturing steel into cars, or textiles into clothing. (A builder and a dressmaker would be workers in the secondary degree.) At this stage the associated industrial economy is also subdivided into several economic sectors (also called industries). Their separate evolution during the Industrial Revolution phase is dealt with elsewhere.
- **Tertiary stage:** Involves the provision of services to consumers and businesses, such as baby-sitting, cinema and banking. (A shopkeeper and an accountant would be workers in the tertiary degree). The service sector consists of the parts of the economy, i.e. activities where people offer their knowledge and time to improve productivity, performance, potential, and sustainability, which is termed as affective labor. The basic characteristic of this sector is the production of services instead of end products. Services (also known as "intangible goods") include attention, advice, access, experience, and discussion. The production of information has long been regarded as a service,
- **Quaternary stage:** Involves the research and development needed to produce products from natural resources and their subsequent by-products. (A logging company might research ways to use partially burnt wood to be processed so that the undamaged portions of it can be made into pulp for paper) Note that education is sometimes included in this sector. The quaternary sector of the economy is a way to describe a knowledge-based part of the economy - which typically includes services such as information technology, information-generation and -sharing, media, and research and development, as well as knowledge-based services like consultation, education, financial planning, blogging, and designing.

The quaternary sector is based on knowledge and skill. It consists of intellectual industries providing information services, such as computing and ICT (information and communication technologies), consultancy (offering advice to businesses) and R&D (research, particularly in scientific fields).

Monetary Policy:

- It refers to the policy regarding money supply and bank credit in the country.
- It is formulated and announced by the central bank of the country (RBI) and implemented through a wide network of commercial banks and other financial institutions.
- It is necessary to regulate the money supply and bank credit in a country so as to ensure proper functioning of the economy.

Objectives:

1. Full Employment:

Full employment has been ranked among the foremost objectives of monetary policy. It is an important goal not only because unemployment leads to wastage of potential output, but also because of the loss of social standing and self-respect.

2. Price Stability:

One of the policy objectives of monetary policy is to stabilise the price level. Both economists and laymen favour this policy because fluctuations in prices bring uncertainty and instability to the economy.

3. Economic Growth:

One of the most important objectives of monetary policy in recent years has been the rapid economic growth of an economy. Economic growth is defined as “the process whereby the real per capita income of a country increases over a long period of time.”

4. Balance of Payments:

Another objective of monetary policy since the 1950s has been to maintain equilibrium in the balance of payments.

5. Exchange Rate Stability:

- Until 1991 our economy followed fixed exchange rate system.
- RBI makes appropriate changes to ensure foreign exchange rate stability.
- A tight policy is adopted to arrest fall in the value of rupee.
- Alternatively to prevent depreciation of rupee, the RBI releases more dollars from its forex reserves.

6. Neutrality of money:

- **Neutrality of money** is the idea that a change in the stock of **money** affects only nominal variables in the economy such as prices, wages, and exchange rates, with no effect on real variables, like employment, real GDP, and real consumption. They hold the view that monetary authority should aim at neutrality of money in the economy. Any monetary change is the root cause of all economic fluctuations. There is a confirmed view that if somehow neutral monetary policy is followed, there will be no cyclical fluctuations, no trade cycle, no inflation and no deflation in the economy. Under this system, money is kept stable by the monetary authority. Thus the main aim of the monetary authority is not to deviate from the neutrality of money. It means that quantity of money should be perfectly stable. It is not expected to influence or discourage consumption and production in the economy.
- **Methods/Instruments of Monetary Policy:**
- The instruments of monetary policy are of two types: first, quantitative, general or indirect; and second, qualitative, selective or direct. They affect the level of aggregate demand through the supply of money, cost of money and availability of credit. Of the two types of instruments, the first category includes bank rate variations, open market operations and changing reserve requirements. They are meant to regulate the overall level of credit in the economy through commercial banks. The selective credit controls aim at controlling specific types of credit. They include changing margin requirements and regulation of consumer credit.
- **Quantitative Methods:**
- These methods maintain and control the total quantity or volume of credit or money supply in the economy.
- **1. Open Market Operations**

Open market operations indicate the buying/ selling of govt. securities in the open market to balance the money supply in the economy. Open market operations refer to the sale and purchase of securities by the Central bank to the commercial banks. A sale of securities by the Central Bank, i.e., the purchase of securities by the commercial banks, results in a fall in the total cash reserves of the latter. A fall in the total cash reserves leads to a cut in the credit creation power of the commercial banks. With reduced cash reserves at their command the commercial banks can only create lower volume of credit. Thus, a sale of securities by the Central Bank serves as an anti-inflationary measure of control.

Likewise, a purchase of securities by the Central Bank results in more cash flowing to the commercial banks. With increased cash in their hands, the commercial banks can create more credit, and make more finance available. Thus, purchase of securities may work as an anti-deflationary measure of control.

2. Deployment of Credit

The RBI has taken various measures to deploy credit in different sectors of the economy. The certain %age of the bank

credit has been fixed for various sectors like agriculture, export etc.

3. Bank Rate:

The bank rate, also known as the discount rate, is the rate payable by commercial banks on the loans from or rediscounts of the Central Bank. A change in bank rate affects other market rates of interest. An increase in bank rate leads to an increase in other rates of interest and conversely, a decrease in bank rate results in a fall in other rates of interest. An increase in bank rate results in an increase in the cost of credit; this is expected to lead to a contraction in demand for credit. In as much as bank credit is an important component of aggregate money supply in the economy, a contraction in demand for credit consequent on an increase in the cost of credit restricts the total availability of money in the economy, and hence may prove an anti-inflationary measure of control and vice versa.

Direct Instruments:

1. Cash reserve ratio (CRR)

Each bank has to keep a certain percentage of its total deposits with RBI as cash reserves.

The RBI is authorized to vary the CRR between 3% and 15%.

Current CRR: 4%

2. Statutory liquidity ratio (SLR):

Amount of liquid assets such as precious metals (Gold) or other approved securities, that a financial institution must maintain as reserves other than the cash.

The reduction in SLR enhances the liquidity of commercial banks.

Current SLR : 21.5%

Indirect Instruments:

Liquidity Adjustment Facility (LAF):

Consists of daily infusion or absorption of liquidity on a repurchase basis, through repo (liquidity injection) and reverse repo (liquidity absorption) auction operations, using government securities as collateral. LAF is used to aid banks in **adjusting** the day to day mismatches in **liquidity**. LAF helps banks to quickly borrow money in case of any emergency or for **adjusting** in their SLR/CRR requirements. LAF consists of repo and reverse repo operations.

- **Repo Rate:**

Repo rate is the rate at which the RBI lends short-term money to the banks against securities. When the repo rate increases borrowing from RBI becomes more expensive.

Current Rate: 6.75%

- **Reverse Repo Rate:**

The rate at which RBI borrows from commercial banks.

Current Rate: 5.75%

Selective/Qualitative Method:

- The RBI directs commercial banks to meet their social obligations through selective/ qualitative measures.
- These measures control the distribution and direction of credit to various sectors of the economy.

✓ **CEILING ON CREDIT**

✓ **MARGIN REQUIREMENTS**

✓ **Regulation of consumer credit**

✓ **MORAL SUASION**

✓ **Credit rationing**

• **Credit ceiling:**

In basic terms (since there are a large number of factors depending on the situation) a **credit ceiling** is the maximum amount that a person, company or entity can borrow. The term '**ceiling**' is typically applied to corporations or governments where a person can't just call their bank to ask for more **credit**.

• **Margin Requirements:**

Percentage of a security's value that may be used as a collateral for a loan to finance its purchase. Changes in margin requirements are designed to influence the flow of credit against specific commodities. The commercial banks generally advance loans to their customers against some security or securities offered by the borrower and acceptable to banks.

More generally, the commercial banks do not lend up to the full amount of the security but lend an amount less than its value. The margin requirements against specific securities are determined by the Central Bank. A change in margin requirements will influence the flow of credit.

A rise in the margin requirement results in a contraction in the borrowing value of the security and similarly, a fall in the margin requirement results in expansion in the borrowing value of the security.

• **Credit Rationing:**

Rationing of credit is a method by which the Central Bank seeks to limit the maximum amount of loans and advances and, also in certain cases, fix ceiling for specific categories of loans and advances.

• **Regulation of Consumer Credit:**

Regulation of consumer credit is designed to check the flow of credit for consumer durable goods. This can be done by regulating the total volume of credit that may be extended for purchasing

specific durable goods and regulating the number of installments through which such loan can be spread. Central Bank uses this method to restrict or liberalise loan conditions accordingly to stabilise the economy.

- **Moral Suasion:**

Moral suasion and credit monitoring arrangement are other methods of credit control. The policy of moral suasion will succeed only if the Central Bank is strong enough to influence the commercial banks.

In India, from 1949 onwards, the Reserve Bank has been successful in using the method of moral suasion to bring the commercial banks to fall in line with its policies regarding credit. Publicity is another method, whereby the Reserve Bank makes direct appeal to the public and publishes data which will have sobering effect on other banks and the commercial circles.

Limitations :

1. Large Non-monetized Sector:

There is a large non-monetized sector which hinders the success of monetary policy in such countries. People mostly live in rural areas where barter is practised. Consequently, monetary policy fails to influence this large segment of the economy.

2. Undeveloped Money and Capital Markets:

The money and capital markets are undeveloped. These markets lack in bills, stocks and shares which limit the success of monetary policy.

3. Large Number of NBFLs:

Non-bank financial intermediaries like the indigenous bankers operate on a large scale in such countries but they are not under the control of the monetary authority. The factor limits the effectiveness of monetary policy in such countries.

4. High Liquidity:

The majority of commercial banks possess high liquidity so that they are not influenced by the credit policy of the central bank. This also makes monetary policy less effective.

5. Foreign Banks:

In almost every underdeveloped country foreign owned commercial banks exist. They also render monetary policy less effective by selling foreign assets and drawing money from their head offices when the central bank of the country is following a tight monetary policy.

6. Small Bank Money:

Monetary policy is also not successful in such countries because bank money comprises a small proportion of the total money supply in the country. As a result, the central bank is not in a position to control credit effectively.

7. Money not deposited with Banks:

The well-to-do people do not deposit money with banks but use it in buying jewellery, gold, real estate, in speculation, in conspicuous consumption, etc. Such activities encourage inflationary pressures because they lie outside the control of the monetary authority.

Fiscal Policy:

In economics and political science, fiscal policy is the use of government revenue collection (mainly taxes) and expenditure (spending) to influence the economy.

Fiscal policy means the use of taxation and public expenditure by the government for stabilisation or growth.

Objectives:

1. To maintain and achieve full employment.
2. To stabilise the price level.
3. To stabilise the growth rate of the economy
4. Mobilisation of resources
5. Economic Development
6. Reduction of disparities of income
7. Correcting disequilibrium in Balance of payments.
8. Increase in Capital Formation
9. Optimum utilization of resources

Elements/Components of Fiscal Policy:

- **Public Expenditure:**

Public expenditure is spending made by the government of a country on collective needs and wants such as pension, provision, infrastructure, etc.

Govt. expenditure becomes a balancing factor in order to maintain national income at a given level.

Such exp. May be progressively raised during depression phase of the business cycle and progressively reduced in the recovery phase

- **Taxation:**

- System of money paid as tax by citizens/people.
- the tax structure in a developing country should be designed in such a manner that it can raise adequate resources for the Govt's developmental as well as not developmental activities without having adverse effects on investment activity in the private sector.
- In developing countries the govt should not rely much on income tax.
- Tax on luxury goods is just and expedient.

- By providing subsidies, the govt. can encourage the production of specific products, without which the pace of development would be thwarted.
- **Public Borrowings:**
 - Public borrowing is the total amount of money that has been borrowed by the government. The other terms used to refer to public borrowing are government debt, national debt or public debt. Government **debt** (also known as **public** interest, national **debt** and sovereign **debt**) is the **debt** owed by a central government.
 - Taxation policies may fail to mobilise enough resources in the developing countries due to low per capita income.
 - The govt. may issue debentures, bonds etc., with attractive rate of interests to check on the private consumption expenditure
 - As the government draws its income from much of the population, government debt is an indirect debt of the taxpayers

Limitations:

- **Forecasting:**

Another most serious limitation of fiscal policy is the practical difficulty of observing the coming events of economic instability. Unless they are correctly observed the amount of revenue to be raised, the amount of expenditure to be incurred or the nature and extent of budget balance to be framed cannot be suitably planned. In fact, success of fiscal measures depends on the accurate predictions of various economic activities. In its absence, it proves to be a little bit erratic.

- **Correct Size and Nature of Fiscal Policy:**

The most important necessity on which the success of fiscal policy will depend is the ability of public authority to frame the correct size and nature of fiscal policy on the one hand and to foresee the correct timing of its application on the other. It is, however, too much to expect that the government would be able to correctly determine the size, nature of composition and appropriate execution-time of fiscal policy.

- **Fiscal Selectivity:**

When monetary policy is general in nature and impersonal in impact, the fiscal policy, in contrast, is selective. The former permits the market mechanism to operate smoothly. The latter, on the contrary, encroaches directly upon the market mechanism and gives rise to an allocation of resources which may be construed as good or bad depending upon one's value judgements. A particular set of fiscal measures may have an excessively harsh impact upon certain sectors, while leaving others almost unaffected.

- **Inadequacy of Fiscal Measures:**

In anti-depression fiscal policy, the expansion of public spending and reduction on taxes are always important elements. The question arises naturally, whether a specific variation in public spending or taxes will bear the desired results or not. In case the injections or withdrawals from the circular flow

are more or less than what are required, the system will fail to move in the desired direction. This results in exaggeration of instability in the economy.

- **Adverse Effect on Redistribution of Income:**

It is felt that fiscal policy measures redistribute income, the actual effect will be uncertain. If income is redistributed in favour of the low-income classes whose marginal propensity to consume is high, the effect will be increase in total demand. But the fiscal action will be contractionary if larger part of the additional income goes to people having higher marginal propensity to save.

- **Reduction in National Income:**

Balanced budget multiplier as a fiscal weapon can be gainfully applied during depression is conditioned by the fact of marginal propensity to spend of the recipients of public expenditure being larger than or, at least, equal to that of the taxpayers. In case it becomes smaller than the taxpayers, the fiscal programmes under balanced budget will bring about reduction in the national income.

- **Solution for Unemployment:**

The purpose of fiscal policy will be defeated if the policy can not maintain a rising supply level of work effort. The money national income will rise with increase in productive efficiency and increased supply of work effort. But if the tax measures are stringent and too high, they will certainly affect the incentive to work. This is an important limitation of fiscal policy.

- **Adverse Effect on debt Management:**

The use of fiscal instruments during unemployment and depression is often associated with the subsequent problem of debt management. Because deficit budgeting is the normal fiscal cure, public debt is made for financing it. And if the process of recovery from depression is long, the creation of budget deficit year after year will create a huge problem of debt repayment and debt management.

- **Adverse Psychological Reaction:**

Large deficit programmes financed by borrowings bring about adverse psychological reactions. Rumours of government bankruptcy discourage investors and often flight of capital takes place.

Competition Act:

Competition:

the activity or condition of striving to gain or win something by defeating or establishing superiority over others.

It is a situation in a market in which firms or sellers independently strive for the buyers' patronage in order to achieve a particular business objective for example, profits, sales or market share

Competition Act/Law:

The Competition Act, 2002 was enacted by the Parliament of India and governs Indian competition law. It replaced the archaic The Monopolies and Restrictive Trade Practices Act, 1969. Under this

legislation, the Competition Commission of India was established to prevent activities that have an adverse effect on competition in India.[1][2] This act extends to whole of India except the State of Jammu and Kashmir.

It is a tool to implement and enforce competition policy and to prevent and punish anti-competitive business practices by firms and unnecessary Government interference in the market.

Benefits of Competition:

- Companies : Efficiency, cost-saving operations, better utilization of resources, etc.
- Consumer : Wider choice of goods at competitive prices
- Government : Generates revenue

Objectives:

- i. Prevent practices having adverse effects on competition,
- ii. Curtail abuse of dominance, (iii) promote and sustain competition in market,
- iii. Ensure quality of products and services, (v) protect the interest of consumers and
- iv. Ensure freedom of trade carried on by other participants in domestic markets.
- v. Promoting economic efficiency in both static and dynamic sense
- vi. Preserving and promoting the sound development of a market economy
- vii. Protecting opportunities for small and medium business

Focus of this Act :

- i. Quality of products and services,
- ii. Healthy competition,
- iii. Faster mergers and acquisitions of companies,
- iv. Regulation of acquisitions and mergers coming within the threshold limits,
- v. allowing dominance with prevention of its abuse to give effect to the second generation economic reforms on the pattern of the global standards set by the more developed countries, etc.

Competition Law generally covers 3 areas:

- Anti - Competitive Agreements, e.g., cartels,
- Abuse of Dominant Position by enterprises, e.g., predatory pricing, barriers to entry
- Regulation of Mergers and Acquisitions (M&As).

Need for act:

- The need for Competition Law arises because market can suffer from failures and distortions, and various players can resort to anti-competitive activities such as cartels, abuse of dominance etc. which adversely impact economic efficiency and consumer welfare.
- Thus there is need for Competition Law, and a Competition Watchdog with the authority for enforcing Competition Law.

Actions taken according to objectives:

i. Anti-Competitive Agreements:

This covers both the horizontal and vertical agreements. It states that four types of horizontal agreements between

enterprises involved in the same industry would be applied.

It states that four types of horizontal agreements between enterprises involved in the same industry would be applied.

These agreements are those that:

- (i) lead to price fixing;
- (ii) limit or control quantities;
- (iii) share or divide markets; and
- (iv) result in bid-rigging.

It also identifies a number of vertical agreements subject to review under rule of reach' test.

ii. Abuse of Dominance:

The Act lists five categories of abuse:

- (i) imposing unfair/discriminatory conditions in purchase or sale of goods or services (including predatory pricing);
- (ii) limiting or restricting production, or technical or scientific development;
- (iii) denial of market access;
- (iv) making any contract subject to obligations unrelated to the subject of the contract; and
- (v) using a dominant position in one market to enter or protect another.

iii. Combinations Regulation (Merger and Amalgamation):

The Act states that any combination that exceeds the threshold limits in terms of value of assets or turnover can be scrutinised by the CCI to determine whether it will cause or is likely to cause an appreciable adverse effect on competition within the relevant market in India.

iv. Enforcement:

The CCI, the authority entrusted with the power to enforce the provisions of the Act, can enquire into possibly anticompetitive agreements or abuse of dominance either on its own initiative or on receipt of a complaint or information from any person, consumer, consumer's association, a trade association or on a reference by any statutory authority. It can issue 'cease and desist' orders and impose penalties. The CCI can also order the break-up of a dominant firm.

The new competition law in India, despite some concerns expressed in certain quarters, is much more consistent with the current anti-trust thinking than the outgoing MRTP Act. Although the success of the new Indian model will now turn on its implementation, India would appear to have taken a very substantial step towards the adoption of a modern competition policy.

Features:

- It is not necessary that there are a large number of producers/suppliers to have competition conditions.
- A single producer can exist and provide a competitive atmosphere provided entry of new firms is easy and not costly.
- Entry barriers can be due to the market position of incumbent firms, legal barriers or strategic barriers

Incumbent firms may use their power as "first Movers" to block entry.

Legal barriers include licensing and other Government regulations

- Strategic barriers are generally erected by incumbent firms in the form of artificial and sudden price reduction with a view to thwarting new entry.
- Contestability of markets ensure competitive conditions in the market.
- Competition is expected to enhance allocated and productive efficiency so as to maximize economic welfare.
- Monopoly (market) power tends to lead to inefficient allocation of sources and discourages innovation or introduction of better technology.

- **Elements of Act:**

- • Putting in place a set of Policies that enhance competition in local and national markets.
- • A Law designed to prevent anti competitive business practices and unnecessary government intervention.
- ***It includes Reforms in certain Policy areas to make these more pro-competition:-***
 - • Industrial policy
 - • Trade policy
 - • Privatization/disinvestment
 - • Economic Regulation

- State aids
- Labour policy

❑ **Industrial Policy:**

Industrial Policy has to address and reform licensing requirements, restrictions on capacities, or on foreign technology tie ups, guidelines on location of industries, reservations for small scale industry, etc. These adversely affect free competition in the market.

❑ **Trade Policy:**

Trade policy has important implications for development of competition in the markets. Measures for liberalisation of trade promote greater competition e.g. reducing tariffs, removal of quotas/physical controls, investment controls, conditions relating to local content etc.

❑ **Privatization/Disinvestment:**

- Empirical research has found that state- owned enterprises generally tend to be less efficient than private owned firms, for reasons such as manager compensation, low incentives, lack of direct accountability, hard budget constraints for managers, etc.
- State owned enterprises are generally insulated from market forces and receive protection/benefits such as government imposed barriers to entry, price regulation and subsidies.
- Thus privatization of state owned enterprises is important element of competition policy.
- However, in privatization/ disinvestment process it is to be taken care that state monopoly is not replaced by private monopoly.

❑ **Economic Regulations:**

New legislation and regulations to promote competition and to bring about restructuring of major industrial sectors is essential. Legislation to aim at separating natural monopoly elements from potentially competitive activities, and the regulatory functions from commercial functions, and also create several competing entities through restructuring of essential competition activities and to create a competitive environment .

Examples:

- Electricity sector
- Telecommunications sector
- Ports

❑ **State Aids:**

Several state aids create unequal operating conditions for businesses. Examples:

- Subsidies
- Tax rebates
- Preferential loans
- Capital injection

Experience suggests that such policy measures rarely have successful results and destroy incentives for firms to become efficient.

Temporary specific state-aid for well stated public purpose can be justified.

Anti Competitive Agreements:

These are agreements which cause or are likely to cause an appreciable adverse effect on competition within India:

Horizontal Agreements:

These are between and among competitors who are at the same stage of production, supply, distribution, etc.

These are presumed to be illegal

Examples: cartels, bid rigging, collusive bidding, sharing of markets, etc.

Vertical Agreements:

- Vertical Agreements are between parties at different stages of production, supply, distribution, etc.

- These are not presumed illegal; are subject to rule of reason.

Examples: tie-in arrangements, exclusive supply/distribution agreements, refusal to deal.

Agreement:

Any arrangement or understanding or action in concert –

Whether or not such arrangement or understanding is formal or in writing

Or whether or not such understanding or arrangement is intended to be enforceable by legal proceedings

Effect of Agreement on Competition:

- Creation of barriers to entry

- Driving existing competitors out of market
- Benefits to consumers
- Benefit to Scientific and technical knowhow

Powers of Competition Commission in regard to agreements:

After the inquiry into the Agreement, Competition Commission can:

- direct parties to discontinue the agreement
- prohibit parties from re-entering such agreement
- direct modification of the agreement
- impose penalty upto 10% of average turnover of the enterprise

Protection of Intellectual Property Rights:

Competition Act

The prohibition on horizontal and vertical agreements do not restrict the right of any person to impose reasonable restrictions to protect any of his rights under the Copyright Act, the Patents Act, the Trade and Merchandise Marks Act, Designs Act

Abuse of Dominance:

“Dominant position” is defined as a position of strength which enables the enterprise to operate independently of competitive forces in the market, or to affect its competitors or consumers in its favor.

- No mathematical or statistical formula is adopted to “measure” dominance

Includes practices like:

- Unfair or discriminatory conditions or prices,
- Limiting or restricting production or technical/scientific development,
- Denial of market access, and
- Predatory pricing.

After inquiry into abuse of dominant position, the Competition Commission can order:

- discontinuance of abuse of dominant position
- impose a penalty upto 10% of the average turnover of the enterprise

Combinations Regulations:

Combinations, in terms of the meaning given to them in the Act, include mergers, amalgamations, acquisitions.

- in order to establish whether the higher concentration in the market resulting from the merger will increase the possibility of collusive or unilaterally harmful behavior, it must first be established as to what the relevant market is
- Horizontal Mergers
- Vertical Mergers
- Conglomerate Mergers
- Pre-Notification:
The requirements for prior notification

Factors to be considered while determining dominance:

- Dominant position linked to a host of factors
- Market share of enterprise
- Size and resources of enterprise
- Size and importance of competitors
- Commercial advantage of enterprise over competitors
- **Relevant Geographic Market:**
Relevant geographic market can be defined as the area in which products are available at approximately the same price given transport costs and any increase in demand can be met from neighboring areas profitably

Horizontal Agreements:

Horizontal Agreement is an **agreement** for co-operation between two or more competing businesses operating at the same level in the market. This is generally to develop a healthy relationship between competitors. The substantial clauses of the **agreement** may include policies regarding pricing, production and distribution.

A vertical agreement is a term used in competition law to denote agreements between firms at different levels of the supply chain. For instance, a manufacturer of consumer electronics might have a vertical agreement with a retailer according to which the latter would promote their products in return for lower prices. Franchising is a form of vertical agreement. vertical Agreement is an agreement for co-operation between two or more competing businesses operating at different levels of production or distribution chain in the market. For example, a vertical agreement could be between a manufacturer, distributor and a retailer.

A **horizontal agreement** is made between competing businesses to manipulate competition amongst all competitors in the marketplace. In contrast, a **vertical agreement** is made between

a seller and a buyer in where a retailer can buy products from one manufacturer but in the agreement is restricted from buying from a competing manufacturer.

Horizontal Merger:

A **merger** occurring between companies in the same industry. **Horizontal merger** is a business consolidation that occurs between firms who operate in the same space, often as competitors offering the same good or service.

A merger occurring between companies in the same industry. Horizontal merger is a business consolidation that occurs between firms who operate in the same space, often as competitors offering the same good or service. Horizontal mergers are common in industries with fewer firms, as competition tends to be higher and the synergies and potential gains in market share are much greater for merging firms in such an industry.

Example

A merger between Coca-Cola and the Pepsi beverage division, for example, would be horizontal in nature. The goal of a horizontal merger is to create a new, larger organization with more market share. Because the merging companies' business operations may be very similar, there may be opportunities to join certain operations, such as manufacturing, and reduce costs.

Vertical Merger

A merger between two companies producing different goods or services for one specific finished product. A vertical merger occurs when two or more firms, operating at different levels within an industry's supply chain, merge operations. Most often the logic behind the merger is to increase synergies created by merging firms that would be more efficient operating as one.

Example

A vertical merger joins two companies that may not compete with each other, but exist in the same supply chain. An automobile company joining with a parts supplier would be an example of a vertical merger. Such a deal would allow the automobile division to obtain better pricing on parts and have better control over the manufacturing process. The parts division, in turn, would be guaranteed a steady stream of business.

A [vertical merger](#) occurs when two companies that produce goods or services for the same finished product merge operations. Eg: a car manufacturer buying a tire company. This vertical merger reduces the cost the manufacturer pays for tires, and allows it to expand business by selling tires to competing carmakers.

Conglomerate merger:

A merger between firms that are involved in totally unrelated business activities. There are two types of conglomerate mergers: pure and mixed. Pure conglomerate mergers involve firms with nothing in common, while mixed conglomerate mergers involve firms that are looking for product extensions or market extensions.

Example

A leading manufacturer of athletic shoes, merges with a soft drink firm. The resulting company is faced with the same competition in each of its two markets after the merger as the individual firms were before the merger. One example of a conglomerate merger was the merger between the Walt Disney Company and the American Broadcasting Company.

Relevant Product Market:

- ☐ Physical characteristics or end-use of goods
- ☐ Price of goods or service
- ☐ Consumer preferences
- ☐ Exclusion of in-house production
- ☐ Existence of specialized producers
- ☐ Classification of industrial products

Objectives of Competition Commission:

To achieve its objectives, the Competition Commission of India endeavours to do the following:

- ☐ Make the markets work for the benefit and welfare of consumers.
- ☐ Ensure fair and healthy competition in economic activities in the country for faster and inclusive growth and development of economy.
- ☐ Implement competition policies with an aim to effectuate the most efficient utilisation of economic resources.
- ☐ Develop and nurture effective relations and interactions with sectoral regulators to ensure smooth alignment of sectoral regulatory laws in tandem with the competition law.
- ☐ Effectively carry out competition advocacy and spread the information on benefits of competition among all stakeholders to establish and nurture competition culture in Indian economy.

Powers of Competition Commission:

After inquiry into abuse of dominant position, the Competition Commission can order:

- ☐ discontinuance of abuse of dominant position
- ☐ impose a penalty upto 10% of the average turnover of the enterprise
- ☐ Cease and desist order
- ☐ Impose penalty up to 10% of turnover.

- ☐ In case of cartel, penalty can be 10% of turnover or 3 times of profit illegally gained from cartel activity, whichever is higher.
- ☐ Recommend to Government the division of dominant Enterprise
- ☐ Various penalties ranging from Rs.1 lac upto Rs.1 crore are also provided for failure to comply with direction/order of Commission.

Penalties of Competition Commission:

- ☐ If any enterprise or person not complies with any order of CCI shall liable for punishment of imprisonment up to 1 year or/and fine which shall not be > 10 lakh.
- ☐ If any person fails to comply with any direction given by CCI or Director General such as ignore summons etc. shall be liable for penalty of Rs 1 lakh per day during such failure continues.
- ☐ If any person or enterprise (party to a combination) provides any false information or hide any considerable information shall liable for penalty of not less than 50 lakhs and may be extended up to 1 crore.
- ☐ Also every person of an enterprise (contravenes any provisions of act) who was responsible to company for conduct of particular business shall be tried and punished as may be determined by CCI.

Duties and Powers of Competition Commission:

Duties & Powers of CCI

- ☐ It shall be the duty of CCI **to sustain competition in markets, protect freedom of trade and interests of consumers in markets.**
- ☐ To sustain competition in markets, CCI has power to make inquiries in case of any certain agreement, abuse of dominant position or any combination by any person or body corporate on its own or on receipt of complaint by consumer or by reference of govt or any authority.
- ☐ The **CCI has powers to inquire into any of acts outside India** that causes adverse impacts on competition within India.
- ☐ The **CCI has power to make inquiry** (either Suo Motto or on request of any person, consumer or trade association) and pass order for any certain agreement, abuse of dominant position or any combination **that cause adverse effect on competition** within India.
- ☐ The **CCI can impose penalties** on enterprises or on persons which shall not be > 10% of turnover of enterprise or person in case of any offence as provided under this act. Also CCI can order to any enterprise or person to pay compensation to person or enterprise who suffered from acts of that person or enterprise.
- ☐ The CCI **can advise central govt for division of a dominant enterprise** to ensure that it does not abuse its position. Consequently, govt can take action either same as advised by CCI or in other form as case may be.

- ❑ The **CCI has power equivalent to a civil court** while discharging its functions in matters such as summoning, producing evidences etc. Also has power to regulate its own procedure such as place of sittings, timings etc.
- ❑ **Any person or enterprise can appeal to Supreme Court against order of CCI within 60 days** from date of order. But no appeal shall be allowed if order passed by CCI involves consent of both parties.
- ❑ **No Civil court can exercise jurisdiction** on any matter under this act or any matter on which CCI is empowered to exercise jurisdiction.

Competition Advocacy:

- ❑ The Competition Commission of India, in terms of advocacy provisions in the Act, is enabled to participate in the formulation of the country's economic policies and to participate in the reviewing of laws related to competition at the instance of the Central Government.
- ❑ Commission is required to take measures for promotion of Competition Advocacy, creating Awareness and imparting Training about competition issues [Section 49(3)]
- ❑ Advocacy means competition promotion through non-enforcement measures
- ❑ For promotion of competition advocacy and creation of awareness about competition issues, the Commission may:-
 - i) Undertake appropriate programmes / activities etc.;
 - ii) Encourage and interact with the organizations of stakeholders, academic community etc. to undertake activities, programmes, studies, research work, etc. on competition issues;

UNIT 3

Culture:

the ideas, customs, and social behaviour of a particular people or society. the attitudes and behaviour characteristic of a particular social group.

Elements of Culture:

❑ Symbols:

The first element that exists in every culture is a variety of symbols. A **symbol** is anything that is used to stand for something else. People who share a culture often attach a specific meaning to an object, gesture, sound, or image. For example, a cross is a significant symbol to Christians. It is not simply two pieces of wood attached to each other, nor is it just an old object of torture and execution. To Christians, it represents the basis of their entire religion, and they have great reverence for the symbol.

We can see more examples of symbols in American culture. [Emoticons](#) are combinations of keyboard characters that many use to represent their feelings online or through texting. The American flag represents our entire country. A red light at a traffic intersection is used to relay the message that you need to stop your vehicle.

❑ Language

The second element present in every culture is a language. **Language** is a system of words and symbols used to communicate with other people. This includes full languages as we usually think of them, such as English, Spanish, French, etc. But, it also includes body language, slang, and common phrases that are unique to certain groups of people. For example, even though English is spoken fluently in both America and Britain, we have slang and phrases that mean different things. American French fries are British chips, American cookies are British biscuits, and so on.

Another example of how cultural languages differ beyond vocabulary is the fact that eye contact represents different meanings in different cultures. In America, eye contact suggests that you are paying attention and are interested in what a person has to say. In other cultures, eye contact may be considered rude and to be a challenge of authority.

❑ Values

Another cultural element is a system of **values**, which are culturally defined standards for what is good or desirable. Members of the culture use the shared system of values to decide what is good and what is bad. For example, in America, we are individualistic - we encourage competition and emphasize personal achievement. A person who accepts a promotion in our culture is praised for their individual hard work and talent. But, our values are in stark contrast with the collectivistic values of other cultures, where collaboration is encouraged, and a person's success is only as good as their contributions to the group. The same person that is offered a promotion who lives in a collectivistic culture would consult with his family before accepting to ensure that it

would be the most beneficial to the group as a whole.

☐ **Knowledge and Beliefs:**

true, justified belief; certain understanding, as opposed to opinion/trust, faith, or confidence in (someone or something).

☐ **Ideals:**

a person or thing regarded as perfect./a standard or principle to be aimed at.

☐ **Preferences:**

a greater liking for one alternative over another or others.

☐ **Norms:**

a standard or pattern, especially of social behaviour, that is typical or expected.

Impact of Culture on Business:

☐ **Changing Preferences**

A major socio-cultural factor influencing businesses and business decisions is changing consumer preferences. What was popular and fashionable 20 years ago may not be popular today or 10 years down the road. Different styles and priorities can undermine long successful products and services. For example, a clothing company must constantly be aware of changing preferences when creating new products or it will quickly become outdated.

☐ **Demographics**

Changes in demographics are also a significant factor in the business world. As populations age, for example, markets for popular music and fashions may shrink while markets for luxury goods and health products may increase. Additionally, changes in the proportion of genders and different racial, religious and ethnic groups within a society may also have a significant impact on the way a company does business.

☐ **Advertising Techniques**

Advertising is perhaps the area of business most closely in touch with socio-cultural changes. Advertising often seeks to be hip and trendsetting, and to do this, advertising agencies and departments cannot lose track of the pulse of the societies in which they engage in business. Changes in morals, values and fashions must all be considered when creating outward facing advertising.

☐ **Internal Environment**

In addition to a company's interactions with the market and its customers, socio-cultural factors also impact a company's internal decision-making process. For example, changing gender roles and increasing emphasis on family life have led to increased respect for maternity and even paternity leave with organizations. Additionally, attitudes towards racial discrimination and sexual harassment have changed drastically over the years as a result of socio-cultural change.

☐ **Religion and Customs:**

Some businesses exist due to religion. Eg: Businesses involved in religious tourism like pilgrimage sites for people visiting their country. Businesses cater to different religions. Eg: sale of non vegetarian products for those people whose religion permits consumption of these products while the other religions prohibit these products. Granting holidays for religious festivals also costs the employer. This is also an example how religion impacts business.

Globalization and Culture:

Cultural Globalization:

Cultural globalization refers to the transmission of ideas, meanings and values around the world in such a way as to extend and intensify social relations. This process is marked by the common consumption of cultures that have been diffused by the Internet, popular culture media, and international travel. This has added to processes of commodity exchange and colonization which have a longer history of carrying cultural meaning around the globe.

Have you ever been abroad? It doesn't matter whether you went to Canada, Russia, or Thailand. You may have noticed that every place has some things that are the same as your hometown, such as fast food restaurants like McDonald's or Levi jeans being sold in a local store. Those are just a couple of examples of **cultural globalization**, which refers to the process by which one culture's experiences, values, and ideas are disseminated throughout the world through various means.

Ok' or the thumbs up sign is now used all over the world thanks to Western influence. But in the U.S., we've adopted words like 'taco' or 'hola!' into our language as well.

Cultural globalization involves the spread of language, the arts, food, business ideas, and technology, and therefore, its impact is felt by almost everybody in the world.

Cultural globalization is the interaction of cultures around the world that are becoming more and more similar.

Impact of Globalization on Culture:

Positive Impact

- ☐ Integration of Indian Culture
- ☐ Speedy Access
- ☐ Digitization

Negative Impact:

- ☐ Commercialization of Culture
- ☐ Religion (people do not like their religion and want to adapt to western philosophies.)
- ☐ Social Values (We have the incorporated values of treating the guests as God, warm-hearted welcoming, greeting elders with due respect and celebrating every small festival with great colour of enjoyment and togetherness. Such a wide gathering with full hue and light can hardly be seen today. People have highly restricted themselves in social interaction. The interaction in

present generation is highly diplomatic considering the financial status and wealth. We have lost our social values and cheerful blessing of togetherness.)

- ☐ Proselytisation (To attempt to convert someone to one's own religious faith/Proselytism is the act of attempting to convert people to another religion or opinion.)
- ☐ Family(We have lost the patience to get adjusted into the joint family, imbibing the values of the elders etc.)
- ☐ Languages(Even the Indians are not very much in favour of promoting their mother tongue or our national language. Instead the youth today consider it to be a shameful condition to speak in their national language Hindi.)
- ☐ India was predominantly an agricultural based country. With the advanced globalization and cropping up of MNCs, the farming has lost its prime value in India. Agricultural science has the least focus amongst the youngsters who consider farming as a shameful profession and look down upon the same. Employment through MNCs have lucrative deals attracting the bulk of manpower who are working for the other countries as their customer care representatives. We are losing our health and our status and slowly getting to the age of economic slavery due to these MNCs. This is what the globalization has provided Indians through their emergence.

India's Socio-Cultural Environment:

1. Decline of Joint family system
2. Reduction in discrimination
3. Women empowerment and improvement in social status of women
4. Religious beliefs
5. Theory of Karma
6. Cultural Divide
7. Social Satisfaction
8. Social Transformation

Social Responsibility:

Social responsibility is an ethical framework and suggests that an entity, be it an organization or individual, has an obligation to act for the benefit of society at large. **Social responsibility** is a duty every individual has to perform so as to maintain a balance between the economy and the ecosystems.

Business and Society:

Changing concept of business:-

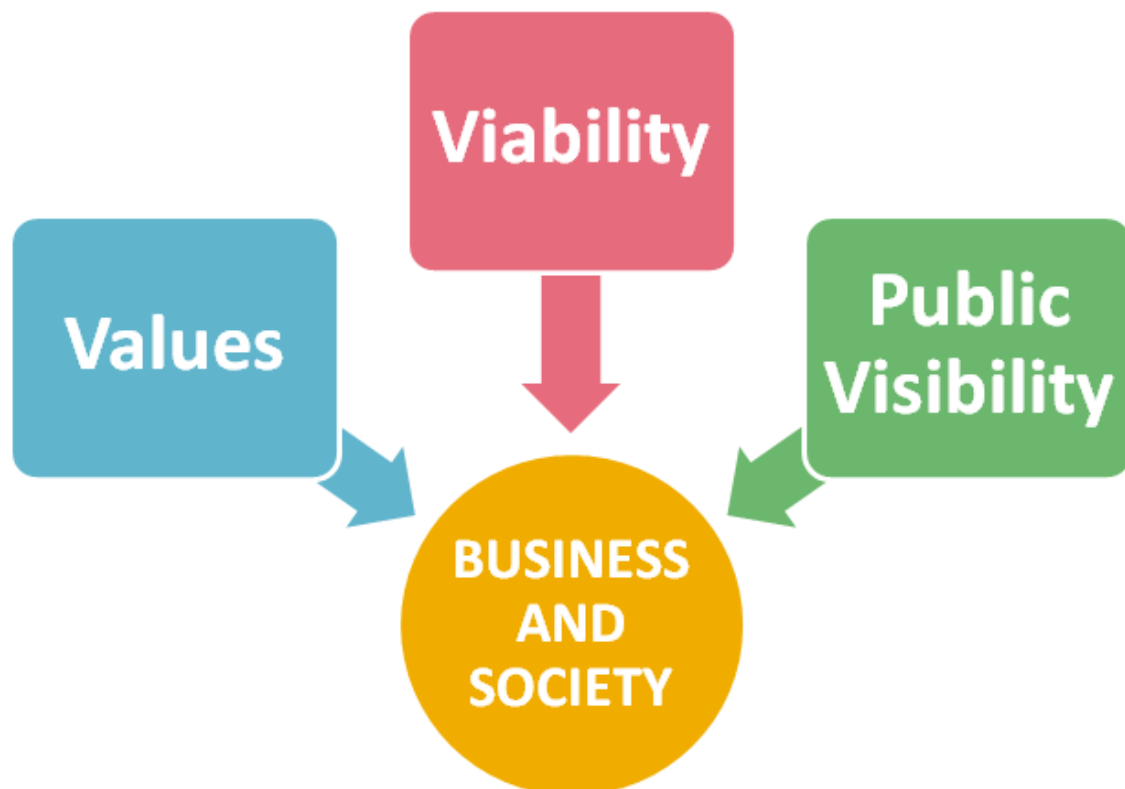
- ☐ Traditional concept (Profit Maximisation):traditional concepts explains that the business of business is to earn profit through production and marketing of products may be of different

types for example physical goods, services, ideas and maximize only profit as per traditional concepts

- ❑ Business systems (System with sub-systems): It is a more organized approach. Organizational systems include people, processes, formal and informal rules and other elements that create a hierarchy for structure and communication. Departments and divisions are common subsystems carved out within an organizational system through the use of an organizational chart. A retailer might have departments for each major category of products it sells. Organizational subsystems are smaller group of employees that work together within the larger organizational system. Examples of subsystems include departments, programs, projects, teams, and informal collections of employees that work together to complete certain work processes. Identifying these groups within your larger organization helps you establish organizational structure and manage work processes at lower levels.
- ❑ Modern concept (Social Institutions): consumer satisfaction is the central point of modern concepts of business. Profit can be earned by maintaining social responsibility. It survives to include every aspects of human civilization. It views the modern business as a socio-economic institution which always responsible towards the society.

A cultural system may be defined as the interaction of different elements of culture.

Business and Society:



Business and Society:

- ❑ **Values:** the regard that something is held to deserve; the importance, worth, or usefulness of something/principles or standards of behaviour; one's judgement of what is important in life.

There are certain values that business has to uphold in order to function properly. Eg: Respect, Justice/Fairness, Honesty

, Service/Giving Back/Contribution

- ❑ **Viability:**

ability to work successfully.

It is only possible if business contributes to society in form of ethical practices for working, creating employment opportunities, selling good quality products and giving good services etc.

- ❑ **Public Visibility:**

the quality or state of being known to the **public**.

A business should prove its existence through its good operations. Public visibility tells what kind of image business has in society. The kind of image determines if the business will operate successfully with support of society or not. A bad business faces losses and may even lead to protests from various social groups, trade unions etc, communities, groups etc.

Corporate Social Responsibility:

- ❑ A company's sense of responsibility towards the community and environment (both ecological and social) in which it operates. Companies express this citizenship (1) through their waste and pollution reduction processes, (2) by contributing educational and social programs, and (3) by earning adequate returns on the employed resources.
- ❑ Corporate social responsibility, often abbreviated "CSR," is a corporation's initiatives to assess and take responsibility for the company's effects on environmental and social wellbeing.
- ❑ CSR may also be referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change.
- ❑ Social responsibility is and organisation's obligation to benefit society in ways that transcend the primary business objective of maximising profit"

Socially Responsible Organisation:

The objective of the Socially responsible organisation(SRO) is to influence the process of developing and advocating socially responsible business practices which benefit not only the SRO and its employees, but also the greater community, the economy and environment .

Nature of Social Responsibility:

- ☐ Focus on business firms(business is a major part of society and impacts society majorly as it produces goods and services by using the resources of the society. It is the social responsibility of business to produce goods and services and work for the welfare of the society as a whole.)
- ☐ Deals with moral issues(concerned with or derived from the code of behaviour that is considered right or acceptable in a particular society.)
- ☐ Commensurate with the objective of profit maximisation
- ☐ Pervasive(spreading widely throughout an area or a group of people/means it concerns everyone)
- ☐ Continuous

Social Responsibility of Business:

Major responsibility of business towards different sections of society are as : 1. Employees, 2. Owners, 3. Consumers, 4. Government, 5. Shareholders, 6. Community, 7. Environment

1. Employees:

No Enterprise can succeed without the whole-hearted cooperation of the employees. Responsibility of business towards employees is in the form of training, promotion, proper selection, fair wages, safety, health, worker's education, comfortable working conditions, participation management etc.

The employees should be taken into confidence while taking decisions affecting their interests. The workers should be offered incentives for raising their performance. Mental, physical, economic and cultural satisfaction of employees should be taken care of. If business looks after the welfare of employees then they will also work whole heartedly for the prosperity of business.

The committee that conducted 'social audit' of TISCO (Tata Iron and Steel Company) observes, "not only should the company carry out its various obligations to the employees as well as the larger community as a matter of principle, but this has also led to a higher degree of efficiency in TISCO works and an unparalleled performance in industrial peace and considerable team spirit and discipline which have all resulted in high productivity and utilisation of capacity."Thus, by discharging its responsibility to employees the business advances its own interests.

2. Owners:

Business is accountable towards owners as well as managing business profitably, ensuring fair and regular return on capital employed, consolidating financial position of business, guaranteeing capital appreciation so as to enable the owners to withstand any business contingencies.

3. Consumers:

Responsibility of business towards consumer extends to:

(i) Product:

Quality goods should be produced and supplied. Distribution system should make goods easily available to avoid artificial scarcities and after sales service should be prompt. Buying capacity and consumer preferences should be taken into consideration while deciding the manufacturing policies. The care must be exercised in supplying the goods of quality which has no adverse effect on the health of consumers.

(ii) Marketing:

To avoid being misled by wrong claims about products through improper advertisements or otherwise, the consumer should be provided full information about the products including their adverse effects, risks and care to be taken while using the products.

Consumers all over the world are, by and large, dissatisfied because the performance of businessman is far from satisfactory. Consumer is not the king in our country but a vehicle used by businessmen for driving towards the goal of profit maximisation.

As a result of which the concept of 'consumerism' has come up to protect the rights of consumers. Even the government is interfering in a big way to protect the interests of consumers.

4. Government:

A number of legislatures are formed from time to time by the government for proper regulation and control of business. Businessmen should comply with all legal requirements, execute government contracts, pay taxes honestly and in time, make services of executives available for government, suggest measures and send proposals to enact new laws for the business.

A number of taxes are imposed on business for collecting revenue. Businessmen should pay various taxes in time and help government in collecting funds. They should not resort to tax evasions rather declare their incomes honestly and correctly.

5. Shareholders:

Shareholders who are the owners of business should be provided with correct information about company to enable them to give them true and fair position of the company to enable them to decide about further investments.

Company should provide a fair return on the investment made by shareholders. If shareholders do not get proper dividend then they will hesitate to invest additional funds in the concern. Shareholders should be kept fully informed about the working of the company for healthy growth of the business. The Companies Act 1956 also requires company to give full disclosure in the published statements.

Company should strengthen the share prices by its growth, innovation and diversification. At the same time shareholders shall also offer wholehearted support and co-operation to the company to protect their own interests.

6. Community:

Responsibility of business towards community and society includes spending a part of profits towards civic and educational facilities. Every industrial undertaking should take steps to dispose of Industrial wastes in such a way that ecological balance is maintained and environmental pollution is prevented.

Rehabilitating the population displaced by business units should also be part of responsibility of business? Business houses should set up units at those places where sufficient space is available for housing colonies of workers. The promotion of small scale industries will help not only nation but will also help in building up a better society.

7. Environment:

Business should protect the environment which has acquired great importance all over the world. Business can discharge the responsibility of protecting environment in following way:

(i) Preservation of Natural Resources:

Scarce natural resources should be used very carefully as these are depleting at a very fast rate. The alternative sources can also be found out to save natural resources like to save forests alternative to wood and pulp can be found, the use of coal can be reduced by alternative source of energy.

(ii) Pollution Control:

Appropriate steps should be taken to prevent environmental pollution and to preserve ecological balance. The industrial waste should be disposed off carefully or if possible can be recycled to minimise pollution. The toxic wastes, excessive noise, chemical pesticides, automobile exhaust etc. need to be checked from time to time.

Importance of Social Responsibility for business:

❑ Creation of Society:

A business enterprise is a creation of society. It gets all inputs-men, money, materials, technology, information etc. from society; and unloads its output onto society by marketing goods and services in society. Therefore, it must be loyal to society; and perform its social responsibilities.

❑ Long – Term Interest of Business:

Fulfillment of social responsibilities is in the long-term best interest of business. Performance of social responsibilities will help in the survival and growth of business enterprises.

For example, if the business sector helps in spreading education in society; in the long-run, it will get more skilled and educated manpower for its functioning. If, it takes care of employees; it will get a loyal and dedicated work-force, as a reward for performing social responsibilities.

❑ Public Image:

Performance of social responsibilities makes for the image of business in society. Such public image, is, yet another name for the goodwill of business. Creation of business goodwill pays huge rewards to business, in many ways.

❑ To reduce Government Intervention:

Businessmen should perform social responsibilities voluntarily. In case otherwise, the government might intervene and force businessmen to perform social responsibilities through enactment and enforcement of suitable legislation vis-a-vis social responsibilities. If business is socially responsible, it will reduce

further regulation of the economic system by government. Regulation will reduce for both business and society.

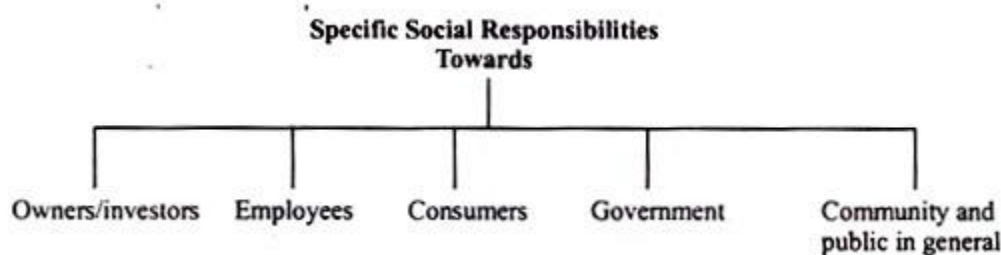
❑ Ample Financial Resources:

There is no doubt that the 'business-class' is the richest class of society, endowed with huge financial resources. This class is the fittest agency to perform social responsibilities, by virtue of, its financial powers.

❑ No Law for all Situations:

Government cannot enact legislations covering all aspects and spheres of social responsibilities. The business should morally undertake to perform social responsibilities in those areas which are not regulated or guided by any of the governmental legislations e.g. eradication of poverty, holding the price-line, giving up cut-throat competition and so on.

- ❑ Corporations through their actions cause some social problems like pollution, dirtiness, etc. and hence they have a moral responsibility to solve these problems caused by them and also make efforts to prevent such problems in future.



(1) Responsibilities towards Owners/Investors:

Some specific social responsibilities of business towards owners are:

- (i) Paying a reasonable rate of dividend as a reward for risking capital in business.
- (ii) Ensuring safety of investment of funds provided by owners.
- (iii) Giving owners a true and fair account of the functioning, profitability and financial position of the company.
- (iv) Showing due regard towards the interest of minority of members.
- (v) Ensuring growth of the company.
- (vi) Not to indulge in undesirable speculation to the detriment of the interests of genuine investors.
- (vii) Not to mislead prospective investors, by any means, whatsoever, to invest in the company.

(2) Responsibilities towards employees

Some specific social responsibilities of business towards employees are:

- (i) Payment of adequate and timely wages

- (ii) Providing congenial work environment
- (iii) Providing adequate industrial safety devices
- (iv) Granting job security.
- (v) Providing opportunities for promotion and advancement.
- (vi) Providing benefits like – subsidized housing, free medical care, leave with pay, entertainment and recreational facilities etc.
- (vii) Ensuring reasonable workers participation in management.
- (viii) Giving workers their due share in the excess profits of the business.
- (ix) Giving humane treatment to workers.
- (x) Taking care of the personal problems of workers, of a serious nature.

(3) Responsibilities towards Consumers:

Some specific responsibilities of business towards consumers are:

- (i) Supplying goods of good quality, at fair prices.
- (ii) Avoidance of indulging in unfair trade practices like:
 1. Supplying lesser weight
 2. Defective packing of goods
 3. Black-marketing, hoarding and profiteering.
 4. Adulteration etc.
- (iii) Taking due care of after-sales services.
- (iv) Not to indulge in false, misleading and vulgar advertising.
- (v) Immediate redress of consumer grievances.
- (vi) Discouraging salesmen from resorting to pressurizing tactics to win customers.

(4) Responsibilities towards the State or Government:

Some specific responsibilities of the business towards the State (i.e. the government) are:

- (i) Timely payment of legitimate taxes.
- (ii) Co-operating with the government in the implementation of its economic and social policies.
- (iii) Supplying the required information to government departments, from time to time.
- (iv) Refraining from corrupting public servants.
- (v) Not to indulge in winning political favours for selfish interests.

(5) Responsibilities towards Community and Public in General:

Some specific responsibilities of business towards community and public in general are:

- (i) Ensuring best utilisation of the scarce economic resources of society.
- (ii) Generation of maximum employment opportunities.
- (iii) Controlling environmental pollution.
- (iv) Preventing urban congestion.
- (v) Undertaking programmes for rural development.
- (vi) Helping in spread of housing, medical, educational and recreational facilities in society.
- (vii) Innovating and implementing schemes for the uplift of the downtrodden.

Dimensions of CSR(alternate explanation to responsibility towards different groups)

- **Shareholders:**

- ☐ Fair and regular dividends
- ☐ Increase in value of investment
- ☐ Safety of investment
- ☐ Full disclosure

- **Employees:**

- ☐ Proper working condition
- ☐ Financial benefits
- ☐ Participation in decision-making
- ☐ Training and motivation
- ☐ Recognition of rights
- ☐ Obey the laws
- ☐ Job security

- **Customers:**

- ☐ Quality Goods
- ☐ Complete information
- ☐ Customer service
- ☐ Need-based products
- ☐ Regular supply of goods

- ☐ Safety of products
- **Community:**
 - ☐ Pollution free environment
 - ☐ Promote artistic and cultural activities
 - ☐ Assist urban and rural development
 - ☐ Support local health care programmes
 - ☐ Employment
 - ☐ Optimum utilisation of resources
 - ☐ Social programmes
 - ☐ Solve social problems
 - ☐ Conform to business ethics
- **Organisation:**
 - ☐ Healthy competition
 - ☐ Share resources
- **Government:**
 - ☐ Honest and regular payment of taxes
 - ☐ Obey the law
 - ☐ Contribute to national goals

Business Ethics:

It determines the rightness or wrongness of actions of businessmen.

Business Ethics is generally coming to know what is right or wrong in the work place and doing what is right.

Business ethics are moral principles that guide the way a **business** behaves.

Features:

- ☐ It determines issue that business houses face in operating their business activities.
- ☐ It distinguishes b/w right or wrong, fair or unfair, just or unjust.
- ☐ It is an important component of CSR that demands business houses to engage in socially responsible behaviours.
- ☐ It demands that corporate houses should obey the law.

- ☐ It demands that the corporate houses should be good corporate citizens.
- ☐ It defines not just what business managers do, but also what they should do.
- ☐ It is broader than law, there may be activities that are ethical but illegal or unethical but legal.

Importance:

1. Corresponds to Basic Human Needs:

The basic need of every human being is that they want to be a part of the organisation which they can respect and be proud of, because they perceive it to be ethical. Everybody likes to be associated with an organisation which the society respects as a honest and socially responsible organisation. The HR managers have to fulfill this basic need of the employees as well as their own basic need that they want to direct an ethical organisation. The basic needs of the employees as well as the managers compel the organizations to be ethically oriented.

2. Credibility in the Public:

Ethical values of an organisation create credibility in the public eye. People will like to buy the product of a company if they believe that the company is honest and is offering value for money. The public issues of such companies are bound to be a success. Because of this reason only the cola companies are spending huge sums of money on the advertisements now-a-days to convince the public that their products are safe and free from pesticides of any kind.

3. Credibility with the Employees:

When employees are convinced of the ethical values of the organisation they are working for, they hold the organisation in high esteem. It creates common goals, values and language. The HR manager will have credibility with the employees just because the organisation has creditability in the eyes of the public. Perceived social uprightness and moral values can win the employees more than any other incentive plans.

4. Better Decision Making:

Respect for ethics will force a management to take various economic, social and ethical aspects into consideration while taking the decisions. Decision making will be better if the decisions are in the interest of the public, employees and company's own long term good.

5. Profitability:

Being ethical does not mean not making any profits. Every organisation has a responsibility towards itself also i.e., to earn profits. Ethical companies are bound to be successful and more profitable in the long run though in the short run they can lose money.

6. Protection of Society:

Ethics can protect the society in a better way than even the legal system of the country. Where law fails, ethics always succeed. The government cannot regulate all the activities that are harmful to the society. A HR manager, who is ethically sound, can reach out to agitated employees, more effectively than the police.

7. Threat of consumer boycotts.

8. Unethical business firms will invite government regulations and interference.

Business Ethics should consider:

1. A business should aim to have fair dealing with everyone dealing with it.
2. Ethics should be fixed for everyone working in the organisation at any level and their implementation should be linked with reward- punishment system.
3. Any violation of ethics should be detected at the earliest and remedial measures taken immediately.
4. Business ethics should be based on broad guidelines of what should be done and what should be avoided.
5. The ethics should be based on the perception of what is right.

Sources of Business Ethics:

1. Religion:

Religion is the oldest source of ethical inspiration. There are more than 1,00,000 religions which exist across the whole world, but all of them are in agreement on the fundamental principles. Every religion gives an expression of what is wrong and right in business and other walks of life. The Principle of reciprocity towards one's fellow beings is found in all the religions. Great religions preach the necessity for an orderly social system and emphasize upon social responsibility with an objective to contribute to the general welfare. With these fundamentals, every religion creates its own code of conduct.

2. Culture:

Culture is the set of important understandings that members of a community share in common. It consists of a basic set of values, ideas, perceptions, preferences, concept of morality, code of conduct etc. which creates distinctiveness among human groups. When we talk about culture we typically refer to the pattern of development reflected in a society's pattern of knowledge, ideology, values, laws, social norms and day to day rituals. Depending upon the pattern and stage of development, culture differs from society to society. Moreover culture is passed from generation to generation. Culture facilitates the generation of commitment to something larger than one's individual self interest.

Culture encourages the members of the organisation to give priority to organizational goals over and above their personal interests. Culture also serves as a sense making and control mechanism that guides and shapes the attitudes and behaviour of people. Managers have to run an industrial enterprise on the cutting edge of cultural experience. The tension that their actions create makes the business ethically more complex.

3. Law:

The legal system of any country, guide the human behaviour in the society. Whatever, ethics the law defines are binding on the society. The society expects the business to abide by the law. Although it is expected that every business should be law abiding, seldom do the businesses adhere to the rules and

regulations. Law breaking in business is common eg. Tax evasion, hoarding, adulteration, poor quality & high priced products, environment pollution etc.

Below is a list of some significant ethical principles to be followed for a successful business-

- ☐ Protect the basic rights of the employees/workers.
- ☐ Follow health, safety and environmental standards.
- ☐ Continuously improve the products, operations and production facilities to optimize the resource consumption
- ☐ Do not replicate the packaging style so as to mislead the consumers.
- ☐ Indulge in truthful and reliable advertising.
- ☐ Strictly adhere to the product safety standards.
- ☐ Accept new ideas. Encourage feedback from both employees as well as customers.
- ☐ Present factual information. Maintain accurate and true business records.
- ☐ Treat everyone (employees, partners and customers) with respect and integrity.
- ☐ The mission and vision of the company should be very clear to it.
- ☐ Do not get engaged in business relationships that lead to conflicts of interest. Discourage black marketing, corruption and hoarding.
- ☐ Meet all the commitments and obligations timely.
- ☐ Encourage free and open competition. Do not ruin competitors' image by fraudulent practices.
- ☐ The policies and procedures of the Company should be updated regularly.
- ☐ Maintain confidentiality of personal data and proprietary records held by the company.
- ☐ Do not accept child labour, forced labour or any other human right abuses.

Social Audit:

- ☐ Social Audit may be defined as a systematic assessment of the social impact of a business firm.
- ☐ It is a critical examination of the activities of a company in order to measure , evaluate and report the impact on the immediate social environment.

The person conducting social audit must be:-

- A) Oriented towards social point of view
- B) Conversant with business practices and problems
- C) Technically trained in fields like law, economics, sociology, philosophy etc.

Objectives:

- ☐ To improve social performance of company
- ☐ To boost the public image of the company.
- ☐ To assess the type of social and environmental influence that the company has in its local community.
- ☐ Another aim is to make a judgment of the material and monetary shortfalls between the needs of the community and the assets that are available for the development of the local society.
- ☐ Another aim of social audits is to make local social service providers and other beneficiaries aware of the needs of the community.
- ☐ Yet another is to provide information needed to improve the effectiveness of programs designed to enhance community development.

Advantages:

- ☐ Helping the community with planning
- ☐ Supporting democracy in the local community
- ☐ Promoting community involvement
- ☐ Benefiting individuals and families that are poor or disadvantaged
- ☐ Promoting decision-making as a community and the sharing of the responsibilities
- ☐ Assisting with human resources growth and development
- ☐ Enhancing the company's image in the eyes of the public

Social Audit in India:

In India Tata Steel (formerly TISCO) was the 1st company to set up a social audit committee in 1979 for measuring its social performance.

Corporate Governance:

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled.

CG can be defined as “the system by which companies are directed and controlled.”

Corporate governance refers to the accountability of the Board of Directors to all stakeholders of the corporation i.e. shareholders, employees, suppliers, customers and society in general; towards giving the corporation a fair, efficient and transparent administration.

It means carrying the business as per the stakeholders’ desires. It is actually conducted by the board of Directors and the concerned committees for the company’s stakeholder’s benefit. It is all about balancing individual and societal goals, as well as, economic and social goals.

Corporate Governance is the interaction between various participants (shareholders, board of directors, and company’s management) in shaping corporation’s performance and the way it is

proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked.

Principles of Corporate Governance:

(i) Transparency:

Transparency means the quality of something which enables one to understand the truth easily. In the context of corporate governance, it implies an accurate, adequate and timely disclosure of relevant information about the operating results etc. of the corporate enterprise to the stakeholders.

In fact, transparency is the foundation of corporate governance; which helps to develop a high level of public confidence in the corporate sector. For ensuring transparency in corporate administration, a company should publish relevant information about corporate affairs in leading newspapers, e.g., on a quarterly or half yearly or annual basis.

(ii) Accountability:

Accountability is a liability to explain the results of one's decisions taken in the interest of others. In the context of corporate governance, accountability implies the responsibility of the Chairman, the Board of Directors and the chief executive for the use of company's resources (over which they have authority) in the best interest of company and its stakeholders.

(iii) Independence:

Good corporate governance requires independence on the part of the top management of the corporation i.e. the Board of Directors must be strong non-partisan body; so that it can take all corporate decisions based on business prudence. Without the top management of the company being independent; good corporate governance is only a mere dream.

Need for CG:

(i) Wide Spread of Shareholders:

Today a company has a very large number of shareholders spread all over the nation and even the world; and a majority of shareholders being unorganised and having an indifferent attitude towards corporate affairs. The idea of shareholders' democracy remains confined only to the law and the Articles of Association; which requires a practical implementation through a code of conduct of corporate governance.

(ii) Changing Ownership Structure:

The pattern of corporate ownership has changed considerably, in the present-day-times; with institutional investors (foreign as well Indian) and mutual funds becoming largest shareholders in large corporate private sector. These investors have become the greatest challenge to corporate managements, forcing the latter to abide by some established code of corporate governance to build up its image in society.

(iii) Corporate Scams or Scandals:

Corporate scams (or frauds) in the recent years of the past have shaken public confidence in corporate management. The event of Harshad Mehta scandal, which is perhaps, one biggest scandal, is in the heart and mind of all, connected with corporate shareholding or otherwise being educated and socially conscious.

The need for corporate governance is, then, imperative for reviving investors' confidence in the corporate sector towards the economic development of society.

(iv) Greater Expectations of Society of the Corporate Sector:

Society of today holds greater expectations of the corporate sector in terms of reasonable price, better quality, pollution control, best utilisation of resources etc. To meet social expectations, there is a need for a code of corporate governance, for the best management of company in economic and social terms.

(v) Hostile Take-Overs:

Hostile take-overs of corporations witnessed in several countries, put a question mark on the efficiency of managements of take-over companies. This factor also points out to the need for corporate governance, in the form of an efficient code of conduct for corporate managements.

(vi) Huge Increase in Top Management Compensation:

It has been observed in both developing and developed economies that there has been a great increase in the monetary payments (compensation) packages of top level corporate executives. There is no justification for exorbitant payments to top ranking managers, out of corporate funds, which are a property of shareholders and society.

This factor necessitates corporate governance to contain the ill-practices of top managements of companies.

(vii) Globalisation:

Desire of more and more Indian companies to get listed on international stock exchanges also focuses on a need for corporate governance. In fact, corporate governance has become a buzzword in the corporate sector. There is no doubt that international capital market recognises only companies well-managed according to standard codes of corporate governance.

Need for corporate governance - at a glance

1. Wide spread of shareholders
2. Changing ownership structure
3. Corporate scams or scandals
4. Greater expectations of society of the corporate sector
5. Hostile take-overs
6. Huge increase in top management compensation
7. Globalisation

Importance of CG:

- ☐ Good corporate governance ensures corporate success and economic growth.
- ☐ Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
- ☐ It lowers the capital cost.
- ☐ There is a positive impact on the share price.
- ☐ It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
- ☐ Good corporate governance also minimizes wastages, corruption, risks and mismanagement.
- ☐ It helps in brand formation and development.
- ☐ It ensures organization in managed in a manner that fits the best interests of all.

Functions of the State:

They are -

- (1) Functions peculiar to the state,
- (2) Functions for which the state is well adopted,
- (3) Functions for which the state is ill adopted,
- (4) Functions which the state is incapable of performing.

These are discussed in the following.

(1) Functions peculiar to the state -

Although there is a general difference of opinion as to this kind of function it must be admitted that state alone can perform these functions.

No other agency can execute such functions, it lone can guarantee equal facilities and opportunities to all members, it can fix up minimum standard for decent living.

Nor is this all. The state can organize justice, peace, education and determine the scales of measurement. All these functions can alone be performed by the state.

(2) Functions for which the state is well adopted -

These are the functions which the state can perform more successfully than any other organization. Such functions include the conservation of natural resources such as forests, fisheries, wild animals and minerals. Another function of the state consists in the provision of education to all the members.

The state consists in the provision of education to all the members. The state can consists in the provision of education to all the members.

The state can contribute to the development of science and art also. Apart from these things, the other functions such as the provision of public parks, museums, play grounds etc. are included in this category.

(3) Functions for which the state is ill adopted -

There are some functions which the state cannot perform as effectively as some other agencies. In this category we included many cultural, religious and class addicted activities for welfare which the state is ill adopted to perform. These functions can be performed in a better way by other private organisations.

(4) Functions which the state is incapable of performing -

There are many functions which cannot come under the control of the state. For example, the state cannot control public opinion, it cannot regulate the conduct of the individuals, it cannot change the customs, traditions,

conventions of the society, it cannot control religion. In short, the state cannot control the details of conduct and culture. All these things remain outside the sphere of state control. It can be concluded the state cannot perform all the functions. It does so possess supreme power in so far as these functions are concerned.

Roles of Government:

☐ Providing the Legislative Framework

The government provides a clear and predictable legal framework for businesses. Regulations are administered in an open and transparent system, and applied fairly to all parties. The government makes it clear to businesses that it deals with them solely on the merits of their case. There is no favoured treatment for local companies or for government-linked companies.

☐ Providing a Stable Environment for Businesses

Fiscal policy in Singapore is guided by the principle that it should support the private sector as the engine of growth and ensures that the macro-environment is stable. The Singapore government has been prudent and conservative in its budgetary policy. It has balanced its budget in nearly every year for the last 3 decades.

Monetary policy is geared towards keeping inflation low and stable for long-term competitiveness and to ensure that savings are not debased.

The government also sets clear and transparent ground-rules and ensures that markets are competitive, for example, by ensuring that imports are allowed to come in freely.

☐ Investing in Infrastructure and Manpower

The government invests in infrastructure and manpower, areas in which the private sector is likely to under-invest. It ensures that the education and training system is geared towards the needs of the economy, with a strong emphasis on providing technical and professional

manpower. Similarly, an efficient infrastructure lowers business costs and makes it attractive for investors to come to Singapore.

☐ **Facilitating Businesses**

The government facilitates businesses, including foreign investors wishing to come to Singapore. This function is carried out mainly by promotional agencies like the Economic Development Board and the International Enterprise Singapore.

☐ **Distribution of goods and services**

☐ **Distribution of income**

☐ **Taxation**

☐ **Making Budget**

Legal Environment/Constitutional Environment/Legal Environment and the government:

Many Acts are passed from time to time in order to control and regulate business activities.

The sum total of all these Acts creates legal regulatory environment. Acts are mostly passed to regulate such business activities as sale-purchase, industrial disputes, labour, regulating partnership business, regulating company business, foreign exchange, etc.

In India, the following Acts have been passed in connection with the above business activities:

(i) Sale of Goods Act (ii) Industrial Disputes Act (iii) Minimum Wages Act (iv) Indian Partnership Act (v) Companies Act (vi) Trademark Act (vii) Essential Commodities Act (viii) Consumer Protection Act (ix) Standards of Weights and Measures Act. All these Acts influence business decisions.

The following are the examples of the impact of the legal regulatory environment on business:

(i) By removing control on the capital market, a huge amount of capital was collected by issuing various new issues in the primary market.

(ii) With introduction of relaxation in Foreign Direct Investment (FDI) and Foreign Exchange, many multinational companies entered the Indian market. Consequently, there has been a tremendous increase in the foreign exchange reserves in the country.

The Constitution of India is the supreme law of India. It lays down the framework defining fundamental political principles, establishes the structure, procedures, powers and duties of government institutions and sets out fundamental rights, directive principles and the duties of citizens.

The nation is governed by it.

It ensures:

- **JUSTICE**, social, economic and political;
- **LIBERTY** of thought, expression, belief, faith and worship;

- **EQUALITY** of status and of opportunity; and to promote among them all;
- **FRATERNITY** assuring the dignity of the individual and the unity and integrity of the Nation;

The Constitution provides us:

- ☐ Right to Equality
- ☐ Right to Freedom
- ☐ Right against Exploitation
- ☐ Right to Freedom of Religion
- ☐ Cultural and Educational Rights
- ☐ Right to Constitutional Remedies

Directive Principles of the State:

The Constitution enumerates several Directive Principles of State Policy which are intended to be implemented by the Centre and State Governments in due course.

They are aimed at the promotion of the material and moral well-being of the people and to transform India into a Welfare State.

Some of the directive principles are:

- There should not be concentration of wealth and means of production to the detriment of common man
- There should be equal pay for equal work for both men and women
- Workers should be paid adequate wage
- Weaker sections of the people, Scheduled Caste and Scheduled Tribe people should be given special care
- The state should promote respect for international law and international peace
- **Political Environment:**
- Political environment is the outcome of a combination of various ideologies advocated by different political parties.
- Factors connected with the activities of the government are included in it, e.g., the type of government (single-party government or multi-party government), the attitude of the government towards different industries, progress in passing different laws.
- The platforms of the political parties, the tendency of the applicants for different posts, efforts by various groups to get effective support for themselves, etc. Every political party has a different attitude towards business community.

- A living example of this can be seen during elections in the shape of fluctuations in the share market. It is quite possible that the mere possibility of a particular political party coming into power can make the prices of share rise sky high. It is true conversely when the possibility of some other political party coming into power may bring the price of shares really nose-diving.
- It clearly shows that the attitude of the first political party towards business is positive which gets reflected in the positive effect on the share market. On the other hand, the negative attitude of the second political party towards business is reflected in the nose-diving of prices of shares in the share market merely on the possibility of its coming to power.
- The following are some of the examples of the impact of the political environment on business:
- (i) In 1977, the Janata Government adopted a stringent attitude towards the multinational companies. As a result of this attitude, the multinational companies like the IBM and the Coca-Cola had to ignore India.
- (ii) The new government encouraged the multinational companies for investment in India. This led to the opening of the doors of the Indian market for the multinational companies. Consequently, the Coca-Cola entered the Indian market once again.
- (iii) It was only because of the political interest that Hyderabad came to be known as Cyberabad. In other words; it came to be recognised as the centre of Information Technology (IT). As a result, many IT companies came to be established there.

Aspects of Political Environment:

- ☐ Present political system
- ☐ Constitution of the country
- ☐ Profile of political leaders
- ☐ Government intervention in business
- ☐ Foreign policy of government
- ☐ Values and ideology of political parties

3 Pillars of Political System:

Legislature

- ☐ Most powerful institution
- ☐ Role is to make the law
- ☐ Policy making
- ☐ Approval of budgets

Executive

- ☐ Referred to as government

- ☐ Responsible for implementing the law
- ☐ To shape, direct and control the business activities

Judiciary

- ☐ Responsible for interpreting and applying law
- ☐ It has to see whether exercise of authority by the executives is according to the general rules laid down by the legislature.
- ☐ To settle legal disputes that affects business considerably like:
 - Disputes between employers and employees
 - Disputes between two companies
 - Disputes between employees
 - Disputes between employers and the public
 - Disputes between employers and the government

Impact on Business:

- ☐ The businessman has to make changes in his organisation according to the changing factor of the political environment.
- ☐ For example, in 1977 when Janata Government came in power they made the policy of sending back all the foreign companies. As a result the Coca Cola Company had to close its business and leave the country.
- ☐ Only after the Economic policy of 1991 did the foreign companies get easy entry in India.

Rationale and Extent of State Intervention:

Government Intervention:

Regulatory actions taken by a government in order to affect or interfere with decisions made by individuals, groups, or organizations regarding social and economic matters.

An economic **intervention** is an action taken by **agovernment** or international institution in a market economy in an effort to impact the economy beyond the basic regulation of fraud and enforcement of contracts and provision of public goods.

It involves:

- ☐ Providing pure public goods.
- ☐ Defense.
- ☐ Law and order.
- ☐ Property rights.

- ☐ Public health.
- ☐ Protecting the poor.
- ☐ Disaster relief.

Intermediate Functions:-

- ☐ Addressing externalities.
- ☐ Basic education.
- ☐ Environmental protection.
- ☐ Consumer protection.
- ☐ Insurance (health, life, pensions)
- ☐ Unemployment.
- ☐ Overcoming imperfect information.

Activist Functions:-

- ☐ Coordinating private activities.
- ☐ Cluster initiatives.
- ☐ Assets redistribution.

UNIT 4

Innovation:

a new method, idea, product, etc.

make changes in something established, especially by introducing new methods, ideas, or products.

introduce (something new, especially a product).

Innovation and Entrepreneur:

Entrepreneurship can be viewed as a creative and innovative response to the environment and an ability to recognise, initiate and exploit an economic opportunity.

An entrepreneur is an innovator who introduces something new in an economy. Innovation may be in:

- ✓ Introduction of a new product or introducing a new quality in an existing product.
- ✓ Introducing a new manufacturing process.
- ✓ Introducing a new distribution process.
- ✓ Locating a new source of raw material.
- ✓ Opening a new market.

BASIS FOR COMPARISON	INVENTION	INNOVATION
Meaning	Invention refers to the occurrence of an idea for a product or process that has never been made before.	Innovation implies the implementation of idea for product or process for the very first time.
What is it?	Creation of a new product.	Adding value to something already existing.
Concept	An original idea and its working in theory.	Practical implementation of new idea.
Skills required	Scientific skills	Set of marketing, technical and strategic skills.
Occurs when	New idea strikes a scientist.	A need is felt for a product or improvement in existing product.
Concerned with	Single product or process.	Combination of various products and process.
Activities	Limited to R & D department.	Spread across the organization.

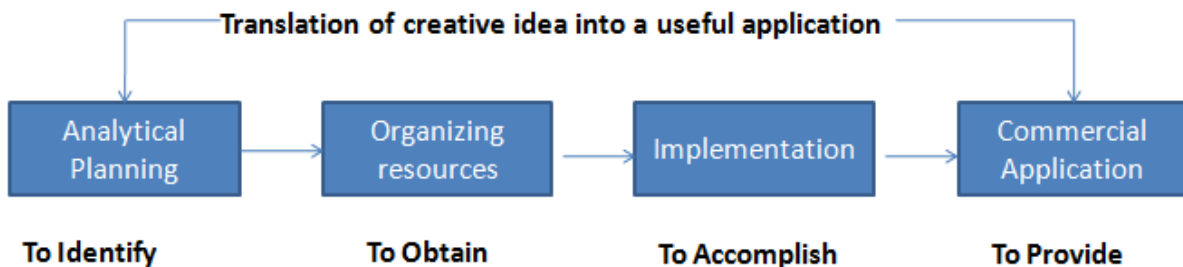


Fig: Elements in the Innovation Process

Creativity: the use of imagination or original ideas to create something; inventiveness.

Comparison Chart

BASIS FOR COMPARISON	CREATIVITY	INNOVATION
Meaning	Creativity is a act of creating new ideas, imaginations and possibilities.	Innovation is the introduction of something new and effective into the market.
Process	Imaginative	Productive
Quantifiable	No	Yes
Related to	Thinking something new	Introducing something new
Money Consumption	No	Yes
Risk	No	Yes

Types of Innovation:

- ☐ Technical Innovation (Product – Oriented Innovation)
- ☐ Non-technical Innovation (Process Innovation)

Technical Innovation/Product Oriented Innovation:

Product Innovation is the creation and subsequent introduction of a good or service that is either new, or an improved version of previous goods or services.

A **product innovation** is the introduction of a good or service that is new or has significantly improved characteristics or intended uses; a process **innovation** refers to the implementation of a new or significantly improved production or delivery method.

Non Technical Innovation/Process Innovation:

"Process innovation means the implementation of a new or significantly improved production or delivery method (including significant changes in techniques, equipment and/or software).

Process innovation is a new or significantly improved way of doing things in a business that typically increases production levels and decreases costs. Process innovation might come in the form of new processes or techniques, new equipment or software.

Sources of Information:

- ☐ Unexpected Occurrences
- ☐ Incongruities(incompatibility.)
- ☐ Industry and Market Changes
- ☐ Demographic Changes(change in the structure of population.)
- ☐ Perceptual Changes(relating to the ability to interpret or become aware of something through the senses./change in perception or understanding)
- ☐ Knowledge based Concept

Technology Leadership and Followership:

Technology leadership:

Industry leaders are those companies which maintain their competitive positions through early development and application of new technologies. However technology leadership imposes costs and risks to the organisations which aspire for maintaining technological superiority or leadership.

Technology followership:

Not all firms are equally prepared to be technology leaders, nor would leadership benefit each firm equally. Whether a firm chooses to be a technology leader or a follower depends on how the firm positions itself to compete, the benefits gained through the use of a technology and the characteristics of the firm.

Technology Dynamics:

Technology dynamics is broad and relatively new scientific field that has been developed in the framework of the postwar science and technology studies field. It studies the process of technological change. Under the field of Technology Dynamics the process of technological change is explained by taking into account influences from "internal factors" as well as from "external factors". Internal factors relate technological change to unsolved technical problems and the established modes of solving technological problems and external factors relate it to various (changing) characteristics of the social environment, in which a particular technology is embedded.

Technological change, technological development, technological achievement, or technological progress is the overall process of invention, innovation and diffusion of technology or processes. In essence technological change is the invention of technologies (including processes) and their commercialization via research and development (producing emerging technologies), the continual

improvement of technologies (in which they often become less expensive), and the diffusion of technologies throughout industry or society (which sometimes involves disruption and convergence). In short, technological change is based on both better and more technology.(related to Technology Dynamics)

a **technological change** is an increase in the efficiency of a product or process that results in an increase in output, without an increase in input. In other words, someone invents or improves a product or process, which is then used to get a bigger reward for the same amount of work.

The telephone is an example of a product that has undergone a technological change. It has undergone many different changes over the years that have made it more efficient. Processes or products, such as the telephone, move through technological change in three stages:

Invention - the creation of a new product or process

Innovation - the application of the invention for the first time

Diffusion - how fast others begin to adopt the innovation

Sources of Technological Dynamics/Change:

The sources of technological change

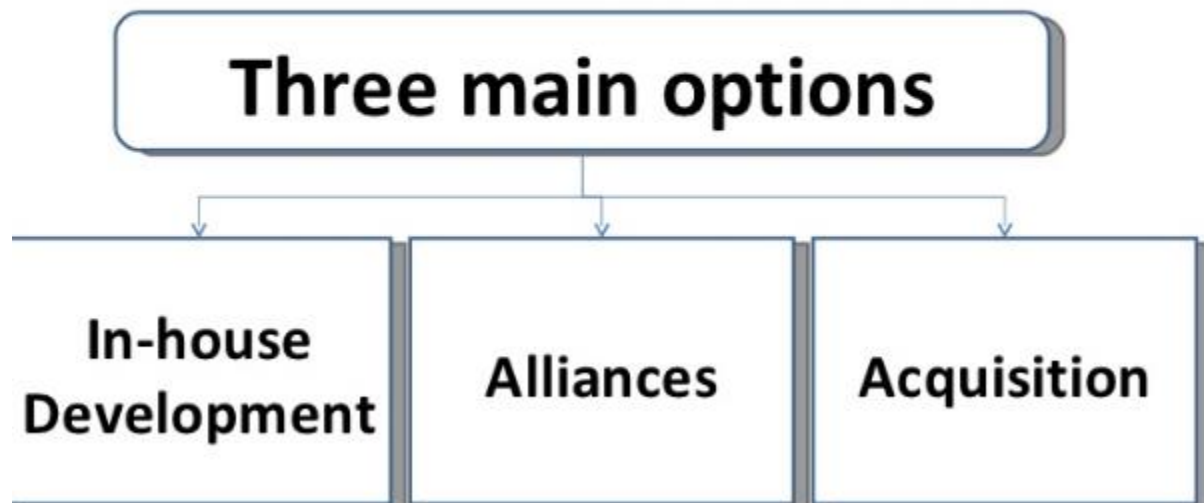
- R&D [activities, actors, different technologies and/or scientific fields]
- Learning by doing [production process, research activities]
- Spillovers [direct –indirect (exploitative activities needed); international; intra-industry; rent spillovers, knowledge spillovers]

Sources of Technological Dynamics/Change:

Sources of technological dynamics

- Innovative drive of the company
- Customer needs and expectations
- Demand conditions
- Supplier's offerings
- Competitive dynamics
- Substitutes
- Social forces
- Research organisations/technical facility
- Government policy

Developing or acquiring technology



Acquisition: a purchase of one company by another./the buying or obtaining of assets or objects./the learning or developing of a skill, or quality to make technology

Effects of Technology Change:

Developments in technology also have significant economic implications,

i) Increased Productivity:

The most fundamental effect of technology is greater productivity in terms of both quality and quantity. This is the main reason why technology at all levels is adopted. In a hospital the objective may be qualitative, such as maintaining life with electronic monitoring equipment regardless of costs. In a factory, the objective may be quantitative in terms of more production at less cost.

ii) Need to Spend on R&D:

Research and Development (R&D) assumes considerable relevance in organisations as technology advances. In this context, firms are required to consider, decide and take action on atleast six issues.

- a) The allocation of resources to R&D.
- b) Technology transfer, the process of taking new technology from the laboratory to the market place is equally important.
- c) Time factor is important in R&D.
- d) As new technology comes in, the old technology needs to be abandoned.
- e) The firm must also decide on its own R&D or to outsource technology, and
- f) The final issue relates to the decision on product innovation or process innovations.

iii) Jobs tend to become more Intellectual and Knowledge- oriented:

With the advent of technology, jobs tend to become more intellectual or upgraded. A job hitherto handled by an illiterate and unskilled worker now requires the services of an educated and competent worker. A clerical post in an office now demands the services of an expert in computers.

iv) Problem of Techno Structure:

Not only jobs become more intellectual and knowledge-oriented, even the incumbents tend to become highly professional and knowledgeable. An organisation that has adopted the latest technology is flush with scientists, engineers, MBA's, college graduates, and knowledge workers as teammates. Though such an organisation can boast of a progressive and modern outlook of its personnel complement, the problems such an enterprise has to face on this account are serious, to say the least.

- a) Motivation of such employees, for instance, is a difficult task. Such mundane incentives as attractive remuneration, job security, and just treatment, hardly inspire the enlightened employees to, work more. They are instead motivated by opportunities which offer challenges or growth or achievement.
- b) Secondly, retaining such employees for long is a difficult job.
- c) Thirdly, constitute, what Galbraith calls, the techno structure of a modern organisation. The techno structure tries to control the organisation through influencing management's decision-making. While there may be nothing wrong in making decisions prompted by the techno structure, the problem lies in the social effect that is involved.

d) People constituting techno structure are experts, no doubt. But they are more action-oriented and are yet to learn social problems of business decisions.

v) Increased Regulation and Stiff Opposition:

A by-product of technological advancement is the ever-increasing regulation imposed on business by the government of the land and stiff opposition from the public. The host government has the powers to investigate and ban products that are directly harmful or hurt the sentiments of a section of society. Import of animal tallow has been banned by the Government of India because the alleged mixture of tallow with vanaspati oil hurt the feelings of Hindus.

vi) Rise and Decline of Products and Organisations:

Change of technology, therefore, is a norm and not an exception. This poses another problem to business. A new technology may spawn a major industry but it may also destroy an existing, one. Transistors, for example, hurt the vacuum-tube industry and xerography hurt the carbon-paper business.

vii) High Expectations of Consumers:

Technology has contributed to the emergence of affluent societies. Affluent citizens want more of many things than more of same things. New varieties of products, superior in quality, free from pollution, safer, and more comfortable, are produced and supplied to the affluent sections. This calls for substantial investments in R&D. One important compulsion for investing in technological advances in Japan is its customer's high expectations regarding design sophistication, quality, delivery schedules, and prices.

viii) Social Change:

The role of technology on social change may be observed in more than one way.

a) There is the change in social life, which results from a change in a technological process. Thus an invention may destroy the economic basis of a city, displace thousands of workers, yet the same invention may result in the creation of a new city somewhere else and create even more jobs than it originally destroyed.

b) Besides uprooting population, technology directly changes the patterns of their social life, for instance the family, the sensitive recorder of all types of change, alters with technological development. An invention may open new employment opportunities to women, radically change hours spent at work and in the family, increase available leisure time, open jobs to youth, and deny them to middle-aged or old workers.

c) Though social differences tend to be ironed out, status differences are likely to be created by technological advancement in developing countries. Technology flows to less developed countries mainly through multinational companies. With vast resources at their command, multinational corporations have carved out places and images for themselves distinct from local companies.

d) The way we cook, communicate, use media and work are affected by technology. Even the language we use is changing, terms that until recently were not even part of our lexicon such as superconductivity, computer engineering, robotics, unmanned factories, miracle drugs, space

communications lasers, fiber optics, satellite networks, e- business and electronic funds transfer have become common place. New terms continue to emerge as new products are introduced or improved – always with the anticipation that there will be a newer, faster, and better innovation in the market any day.

Concepts like house-husband, surrogate mother, and domestic partner all represent changes in society.

Technology Transfer:

the transfer of new technology from the originator to a secondary user, especially from developed to developing countries in an attempt to boost their economies.

Technology transfer, also called transfer of technology (TOT), is the process of transferring (disseminating) technology from the places and ingroups of its origination to wider distribution among more people and places. It occurs along various axes: among universities, from universities to businesses, from large businesses to smaller ones, from governments to businesses, across borders, both formally and informally, and both openly and surreptitiously. Often it occurs by concerted effort to share skills, knowledge, technologies, methods of manufacturing, samples of manufacturing, and facilities among governments or universities and other institutions to ensure that scientific and technological developments are accessible to a wider range of users who can then further develop and exploit the technology into new products, processes, applications, materials, or services. It is closely related to (and may arguably be considered a subset of) knowledge transfer. Horizontal transfer is the movement of technologies from one area to another. At present[when?] transfer of technology (TOT) is primarily horizontal. Vertical transfer occurs when technologies are moved from applied research centers to research and development departments.

Time Lags in Technology Introduction:

The **technology gap theory** a model by Posner 1961, describes an advantage enjoyed by the country that introduces new goods in a market. As a consequence of research activity and entrepreneurship, new goods are produced and the innovating country enjoys a monopoly until the other countries learn to produce these goods: in the meantime they have to import them. It is based on two forms of lags, that is, demand lag and imitation lag. Demand lag refers to the time it takes from creating a new product, up to when it is accepted locally, at this point, exports are equal to zero and there is test marketing as well as product activation. This lag also reaches up to a point when the importing countries slowly accept the newly developed product due to lack of awareness. Imitation lag refers to the time when the product is now fully accepted by the importing country and there will be a rise in exports, hence producers in the importing country will start imitating the new product. This process' length depends on the innovativeness and the amount of R&D the importing country spends on developing the product. Thus, international trade is created for the time necessary to imitate the new goods (*imitation lag*).

This lag has several components, that Posner (1961) classifies (from the point of view of the importing country) in the following categories:

foreign reaction lag. This is the time between the successful utilization of the innovation by entrepreneurs in the innovating country and the new goods becoming regarded, by some firms in the importing country, as a likely competitor for their products.

domestic reaction lag, which is the time required for all firms in the importing country to become aware of the competition from the new good.

learning period, which is the time required for the importing country's firms to learn to produce the new good, and actually produce and begin selling it on the domestic market.

According to Posner, to get the total net lag, one should subtract from the imitation lag a *demand lag*, that is, the time elapsing between the introduction of the new good in the innovating country and the appearance of a demand for it in other countries (some time elapses before the other countries' consumers come to know of the new good and acquire a taste for it).^[4] Imports of the new good will therefore take place only in the period of time resulting from the difference between the imitation lag and the demand lag

Management of Technology:

Technology management is a set of management disciplines that allows organizations to manage their technological fundamentals to create competitive advantage. Typical concepts used in technology management are:

- ☐ technology strategy (a logic or role of technology in organization),
- ☐ technology forecasting (identification of possible relevant technologies for the organization, possibly through technology scouting),
- ☐ technology roadmap (mapping technologies to business and market needs), and
- ☐ technology project portfolio (a set of projects under development) and technology portfolio (a set of technologies in use).

The role of the technology management function in an organization is to understand the value of certain technology for the organization. Continuous development of technology is valuable as long as there is a value for the customer and therefore the technology management function in an organization should be able to argue when to invest on technology development and when to withdraw.

Impact of Technology:

☐ **Consumers**

The impact of technology on a business isn't restricted to business use. A business is also affected when consumers use technology. At one time, the only way some people had to file their tax returns was through going to either a certified public accountant or a professional tax preparer, or doing taxes themselves. The tax code is complex and some people might not have felt secure in preparing their taxes on their own. However, accounting software evolved to the point where many people simply had to answer a series of questions and the computer would do the rest, including filing the information electronically.

☐ **Crossover**

The technology a business uses might not have been designed for businesses. From a marketing point of view, a company makes more money by going after consumers than businesses. Consumers might buy the latest upgrade to a technological device, such as an iPhone, while businesses tend to use products

for longer periods of time. On the other hand, the more consumers purchase the latest product, the better the business side of manufacturing does. A company can reach the consumer market first, then expand into the business arena. When Apple added enhanced security features to the iPhone, businesses began to look at adding iPhones to the list of acceptable phones to use in the business environment, resulting in a crossover market.

☐ **Social Networking**

Social networking affects the business environment. Employees are connected to social networks. This can be a double-edged sword, however. An employee might post something about the business publicly which should not be shared. In addition, employees need to understand what gets posted for the public to see can have an impact on the work environment, especially if the employee is posting negative comments about the work environment or other employees. On the flip side, businesses can use social networks to monitor customer satisfaction. For example, if a customer is not happy with a product and he posts his feelings online, the company can contact the customer and try to resolve any problems. Since social networks have links to friends and family, seeing the company work hard to make things right with the customer might turn the potential loss of a customer into the chance to gain new customers.

☐ **Telecommuting**

Technology has had a large impact on the business environment in terms of telecommuting. With broadband access and computers today, as well as smartphones, employees can work out of their homes, saving the company money by not needing as physically large a space to operate. With video conferencing, business meetings no longer need to be face-to-face, saving on air fare and hotel reservations.

Reducing Business Costs

Small business owners can use technology to reduce business costs. Business technology helps automate back office functions, such as record keeping, accounting and payroll. Business owners can also use technology to create secure environments for maintaining sensitive business or consumer information.

Considerations

Business technology allows companies to outsource business function to other businesses in the national and international business environment. Outsourcing can help company's lower costs and focus on completing the business function they do best. Technical support and customer service are two common function companies outsource.

Small business owners may consider outsourcing function if they do not have the proper facilities or available manpower. Technology allows businesses to outsource function to the cheapest areas possible, including foreign countries.

